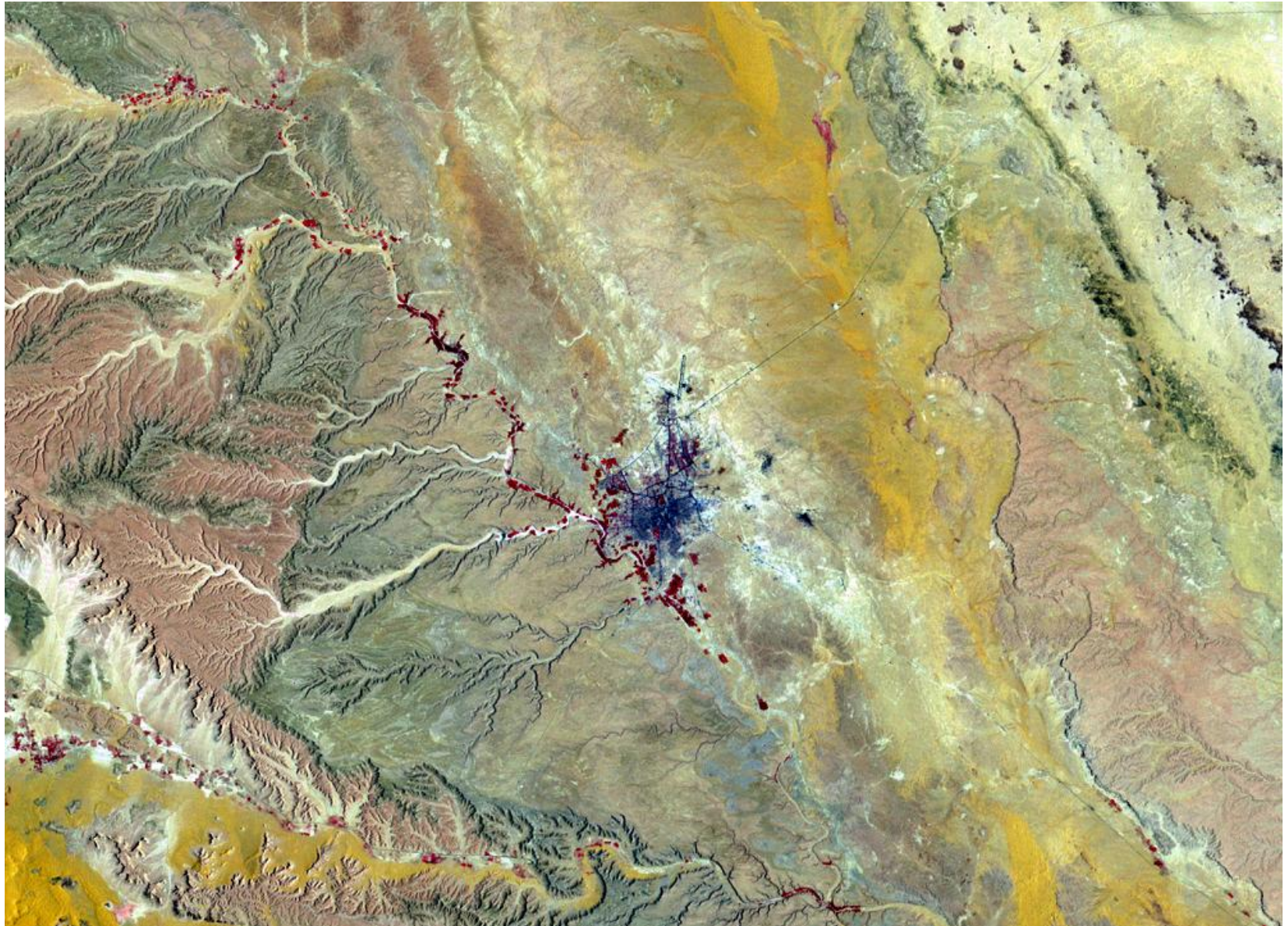


**Saudi Arabia's
Real Estate
Development
Sector
Market Review**



Landsat 1 satellite image of Riyadh, Saudi Arabia, acquired on August 1, 1972

June 2026

Simah Rating Agency (Tassnief) CMA License No. 1500-08

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Executive Summary

Macro-Financial Resilience and Strategic Scale

The Saudi real estate sector is characterized by a structural decoupling from historic oil price volatility, underpinned by a stable macroeconomic framework and the strategic mandates of Vision 2030. Contributing approximately 5.2% to the national non-oil GDP, the industry has demonstrated significant resilience against global monetary tightening, sustained by robust government fiscal spending and interest rate subsidies that protect end-user demand. The Kingdom has established itself as the second-largest real estate market in the GCC by transaction volume. This scale provides the necessary institutional depth and multi-asset breadth to support large-scale development.

Real Estate Price Index

The Saudi real estate sector exhibited robust capital appreciation over the 2021 to 2024 period, spearheaded by a commercial segment that outpaced the broader market due to high demand for Grade-A office space and Vision 2030 infrastructure. The residential sector followed with a substantial rise, supported by sustained demand and expanded mortgage penetration. While these trends established a significantly higher valuation floor, the market transitioned into a recalibration phase by late 2025.

The Saudi property market has entered a recalibration phase, with the Real Estate Price Index shifting from expansion to an orderly contraction. This cooling is driven by acute affordability pressures and a wait-and-see buyer sentiment following regulatory shifts like the Riyadh rent freeze, strategic land releases and the White

Land Tax (WLT). These interventions have effectively capped speculative growth, pivoting the Kingdom toward a more sustainable, end-user-driven valuation floor.

Riyadh: The Strategic Anchor

Riyadh functions as the indispensable anchor of the Kingdom's real estate landscape, acting as both a primary administrative hub and a critical engine for sectoral liquidity. Commanding more than half of all real estate activity in Saudi Arabia and contributing more than a quarter to the national GDP, the capital's market scale is dominant in the national context. This high concentration of investment and infrastructure development ensures that Riyadh dictates the broader trajectory of the Saudi property market; its deep-seated demand and systemic significance provide a solid valuation floor.

Demand and Supply Dynamics

Market dynamics are increasingly defined by a persistent supply-demand mismatch in core urban centers, particularly Riyadh. Driven by rapid urbanization, a young demographic profile and the Regional Headquarters Program (RHQ); demand for residential and Grade-A office space remains at historic highs. Current projections indicate a housing deficit of approximately 400,000 units by 2030, a gap that ensures long-term inventory absorption but places significant execution pressure on the private sector. While giga-projects drive long-term transformation, the immediate credit focus remains on private developers' ability to navigate project delivery timelines and construction cost inflation to satisfy this inherent demand. Going forward the long-term health of the market depends on the private sector's ability to move beyond land speculation and master high-efficiency delivery. Success will be defined by the ability to provide sufficient inventory that aligns with the



actual purchasing power of the Saudi middle class, ensuring that the current growth trajectory remains both stable and inclusive.

Financing Framework and Systemic Risk Mitigants

The Saudi real estate sector has undergone a fundamental structural shift toward a bank-centric financing model, where retail mortgages now serve as a primary pillar of the domestic financial system. This evolution is supported by a sophisticated risk mitigation framework—including salary assignments, regulatory debt caps and government-backed interest subsidies—that shield the market from broader macroeconomic volatility. As corporate financing matures, the industry is moving away from traditional standalone lending toward a more integrated approach involving capital markets and institutional development funds, ensuring that credit remains focused on high-quality, institutional-grade projects.

Regulatory Evolution and Governance Standards

The Saudi real estate sector has transitioned from a fragmented market into a formal, digitally enabled ecosystem through a comprehensive restructuring of its institutional and regulatory architecture. By decoupling policy, regulation and execution via specialized entities like the National Housing Company, Real Estate General Authority and Saudi Real Estate Refinance Company; the Kingdom has successfully addressed historical supply constraints and transparency gaps, fostering a predictable environment for long-term capital deployment. This transformation is anchored by the Sakani and Ejar platforms, which have revolutionized the homeownership journey and rental market through digital integration, financial subsidies and standardized legal protections. Furthermore, strategic interventions such as the White Land Tax (WLT) and Riyadh rent freeze are

actively curbing speculation and unlocking prime land for development. Collectively, these reforms have matured the sector's investability, positioning both residential and commercial real estate as resilient, institutional-grade asset classes that underpin the Kingdom's broader economic diversification under Vision 2030.

Financial Profile of Listed Real Estate Developers

The sector is currently in a high-growth phase characterized by rapidly scaling revenues and accelerated project delivery. While performance remains uneven—as is typical for the development cycle—improved access to institutional credit and capital markets has enabled a strategic shift from localized projects to large-scale urban developments. Profitability remains robust, underpinned by deep domestic demand; although margins have normalized due to higher interest rates and overheads, earnings quality remains high. Top-tier developers are increasingly diversifying income streams through recurring rental revenues and strategic land sales to buffer against construction cost volatility.

Concurrently, the industry is transitioning toward sophisticated debt leveraged funding models to meet the intensive capital requirements of land acquisition and infrastructure. While borrowings have risen, they remain within manageable limits supported by a robust demand outlook and structured off-plan inflows. This resilient capital structure provides sufficient leverage to maximize returns while maintaining an equity cushion against market volatility. Furthermore, cash flow from operations is defined by a heavy reinvestment cycle, with operating gains channeled directly into project pipelines. Although this results in lean immediate liquidity, strong interest coverage ensures that developers can comfortably service debt, while the



stabilization of leverage relative to earnings indicates a sustainable growth profile capable of absorbing potential market shifts.

Financial Profile of Investment Grade Real Estate Developers in Tassnief's Portfolio

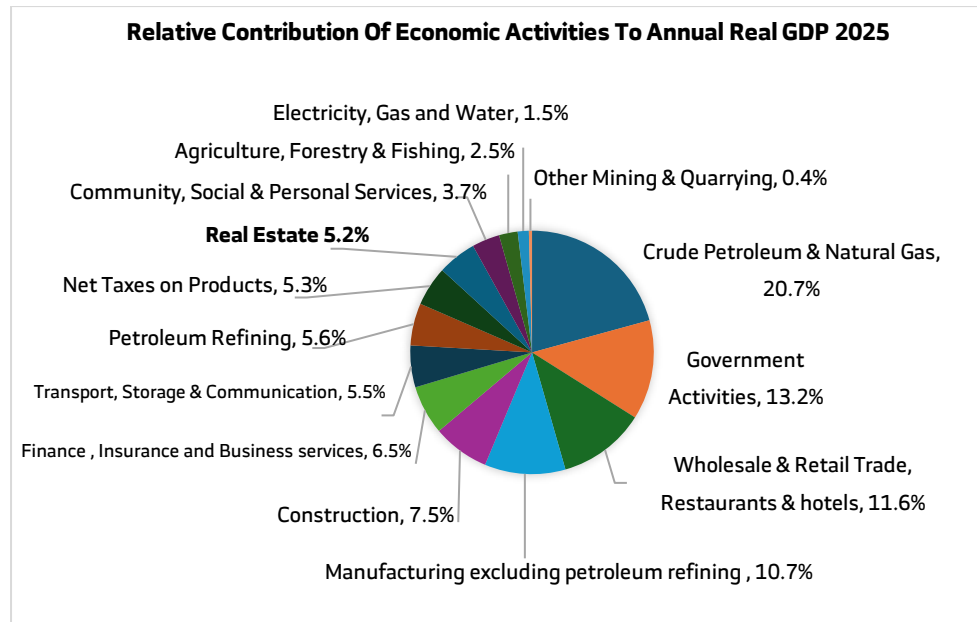
Investment-grade developers within Tassnief's portfolio continue to exhibit robust operational momentum, with median revenues expanding by 37% between 2022 and 2024. This growth reflects an accelerated pace of project execution and high absorption rates across the Kingdom's primary urban hubs, underscoring the sector's ability to mobilize capital and maintain sales velocity despite a restrictive interest rate environment. However, while absolute net profits have increased, the sector is undergoing a structural transition toward normalized profitability. Median net profit margins have moderated, driven by escalating land acquisition costs, elevated financing expenses and a shift toward complex, large-scale developments. Furthermore, the adoption of diversified capital structures incorporating third-party equity partners has facilitated greater project scale while naturally constraining the developers' share of net margins.

Despite a significant rise in absolute borrowing to fund expansionary mandates, the capital structure remains conservative, with the median total debt-to-equity ratio holding stable as debt growth is prudently matched by an expanding equity base. This capitalization trend is underpinned by consistent earnings retention and strategic capital injections, ensuring a resilient equity cushion against potential market volatility. Nevertheless, the divergence between rising net profits and declining Funds From Operations (FFO) highlights a tightening of operational flexibility, primarily due to the exclusion of non-core gains. While Cash Flow from

Operations (CFO) turned positive in 2024, signaling improved collections and milestone achievement, the lag between debt deployment and cash realization remains a key constraint. Consequently, coverage metrics have normalized toward more sustainable levels, reflecting an increased sensitivity to financing costs and a heightened reliance on timely project delivery to service an elevated debt load.

Macro-Financial Linkages

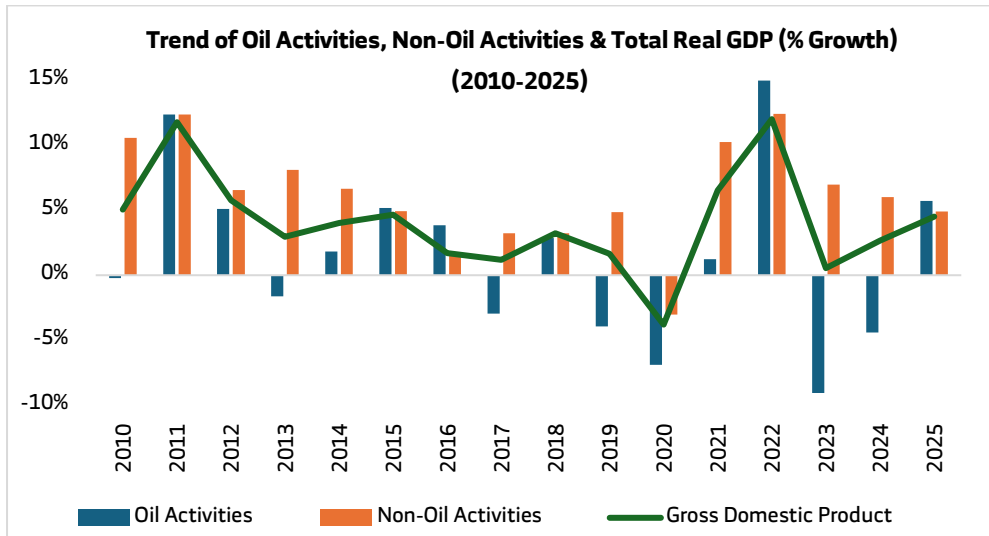
Saudi Arabia continues to demonstrate steady economic expansion while gradually diversifying beyond hydrocarbons. Real GDP reached SR 4,902 billion in 2025, reflecting sustained growth in overall economic activity. Hydrocarbons remain the largest contributor, with crude oil and natural gas accounting for 20.7% of GDP; however, the economic base is increasingly broad. Government activities represent the second-largest share at 13.2%, while the non-oil economy remains a key growth driver led by trade at 11.6%, manufacturing (excluding refining) at 10.7% and construction at 7.5%. Additionally, finance, insurance and business services at 6.5%, real estate at 5.2% and transport at 5.5% continue to provide meaningful support, highlighting ongoing structural diversification and reduced reliance on oil-driven growth.



Source: General Authority for Statistics Saudi Arabia (GASTAT)¹

Saudi Arabia's economy has exhibited alternating phases of expansion and moderation, primarily dictated by fluctuations in oil market dynamics. After strong growth in the early 2010s, activity contracted in 2020 but rebounded sharply in 2021 to 2022. Growth softened again in 2023 to 2024 due to weaker oil performance, although non-oil activity remained robust, supporting stability. In 2025, momentum improved with recovering oil output and sustained non-oil growth, reinforcing near-term economic resilience.

Saudi Arabia's economy is characterized by periodic shifts between accelerated expansion and fiscal moderation, primarily dictated by the cyclicity of the hydrocarbon market. Following a pandemic-induced contraction in 2020 and a sharp rebound over 2021 to 2022, headline real GDP growth softened throughout 2023 to 2024 due to voluntary oil production cuts and global price volatility. However, the emergence of a bifurcated growth model—where the non-oil private sector maintains robust momentum—has served as a critical stabilizer. By 2025, economic resilience was further reinforced as recovering oil output converged with sustained non-oil expansion, providing a more balanced foundation for credit stability.

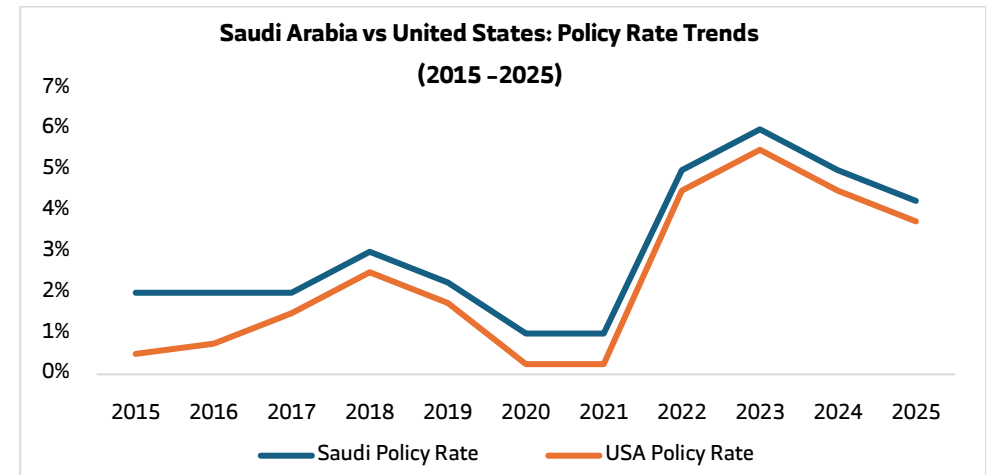


Source: GASTAT¹

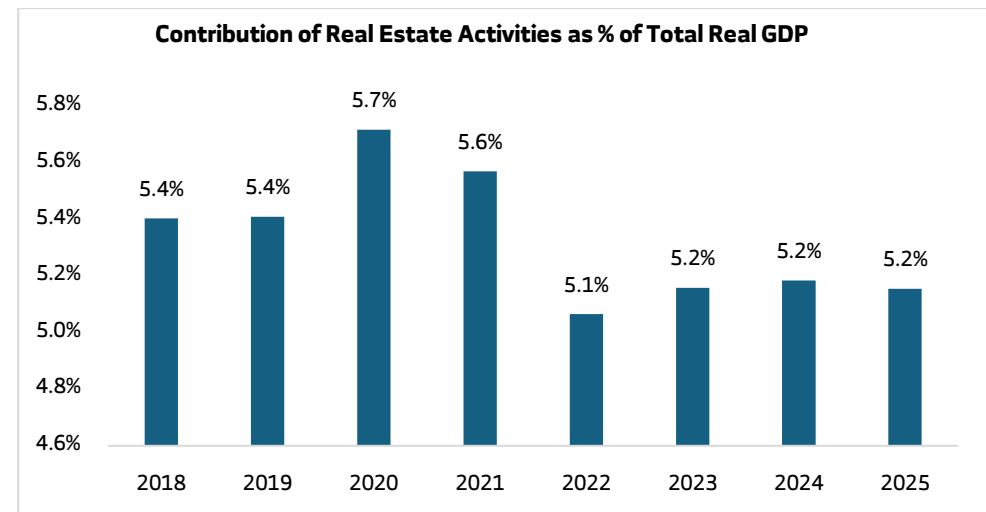
Non-oil expansion tends to underpin real estate demand by driving employment growth, investment and household income. While volatility in oil activity can influence liquidity, fiscal spending and investor sentiment. As the economy increasingly transitions toward diversified, non-oil drivers, the real estate sector stands to benefit from a more stable and broad-based growth environment.

Policy rate movements in Saudi Arabia closely track U.S. monetary policy due to the fixed exchange rate regime. Between 2015 and 2018, rates were largely stable, with Saudi repo rate marginally above U.S. levels. Both countries began tightening policy in 2018, reflecting stronger global growth and eased sharply during 2020 to 2021 in response to the COVID-19. However, from 2021 onwards, rapid U.S. tightening led Saudi Arabia to raise its repo rate to above 5%, preserving alignment with the currency peg. By 2024, rates in both economies moderated slightly. In 2025, Saudi Arabia reduced its policy rate to ~4.3% in line with U.S. cuts (~3.8%), maintaining a

small premium while easing liquidity conditions under the USD peg. Overall, the period underscores policy rates in both countries move in tandem, with domestic liquidity conditions and oil prices influencing transmission rather than the policy direction.

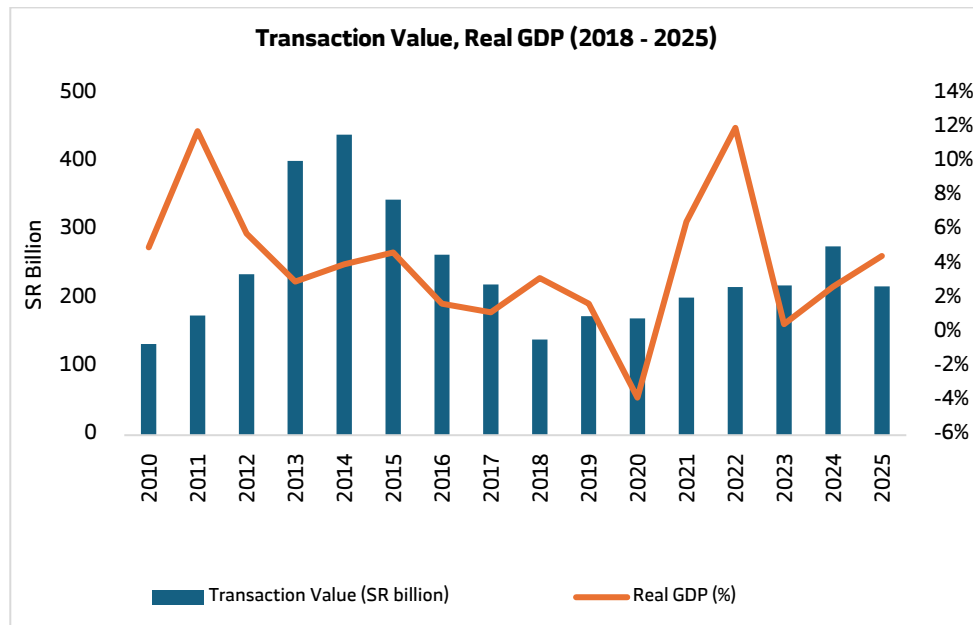


Source: SAMA², Bloomberg³



Source: GASTAT¹; *Excludes Construction

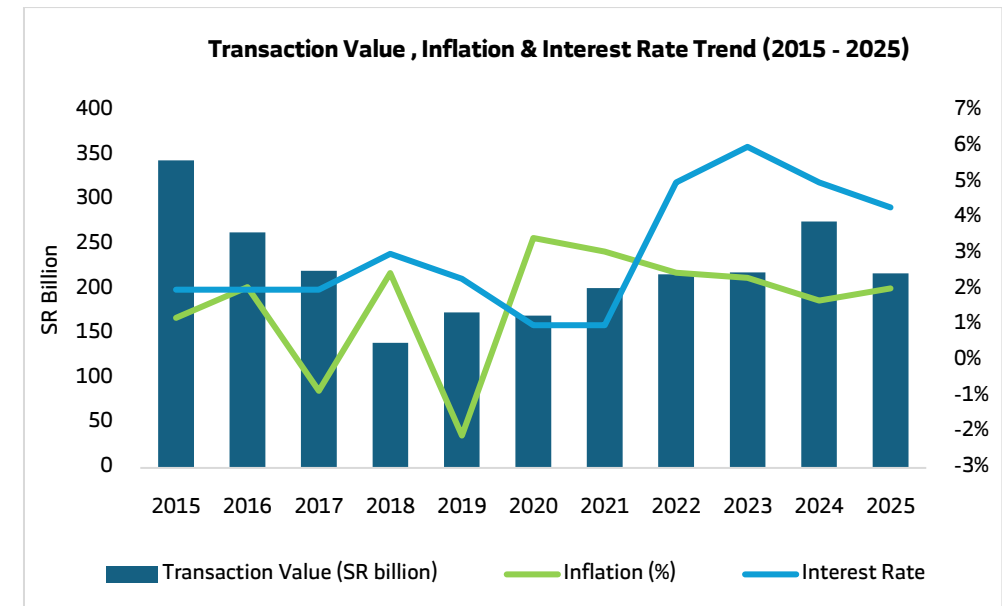
Saudi Arabia's real estate market grew sharply, with transaction values from SR 133.7 billion in 2010 to SR 439.8 billion in 2014, closely tracking strong GDP growth in the initial years, indicating a positive correlation between economic expansion and transaction activity. In between 2015 and 2018, transactions value declined to SR 140.3 billion alongside slower GDP growth, broadly maintaining this relationship. Post-2019, however, the correlation weakened, with transactions value stabilizing at SR 276.2 billion in 2024 despite moderate GDP growth. However, Saudi Arabia's real estate transactions declined to SR 218 billion in 2025, due to policy driven curbs on speculation and price normalization.



Source: Ministry of Justice⁴, GASTAT^{1,5}, IMF⁶

Note: Annual transaction value is calculated by aggregating transaction value and volume for all transactions occurring from 1st January to 31st December of the year.

Government initiatives such as the Sakani program, implemented in partnership with the Real Estate Development Fund (REDF) and financial institutions, continued to support first-time homebuyers in 2025 through non-refundable grants of SR 100,000 to 150,000, alongside subsidized mortgage financing with profit-rate support ranging from 35% to 100% depending on income eligibility. The program also facilitated improved affordability via reduced downpayment requirements, as low as 5%, and extended financing tenors, while additional measures such as VAT/RETT support for first-home purchases further lowered transaction costs. Collectively, these initiatives sustained housing demand despite elevated interest rates and tighter financial conditions.



Source: Ministry of Justice⁴, GASTAT^{1,5}, IMF⁶, SAMA²

Note: Annual transaction value is calculated by aggregating transaction value and volume for all transactions occurring from 1st January to 31st December of the year

Market Overview and Performance

History of Saudi Arabia's Real Estate Development

Saudi Arabia's real estate sector has evolved significantly over the past several decades, transitioning from informal land use and early owner-occupied housing to a structured and policy-driven market that is central to national economic planning. Historically, much of Saudi land was considered public and unstructured in its use. During the early stages of urban development, land was allocated to individuals and families through government grants and informal occupation practices, contributing to an initial base of private land ownership and residential plots. Such transitions marked early shifts from communal or undeveloped land toward individual property rights as settlements expanded with population growth and urbanization.

In the 1960s to 1970s, formal land grants became more systematic as part of development policies. These grants were designed to support urban growth, particularly in major cities, leading to the transfer of land from public ownership to private hands, often for housing and individual construction⁷. A pivotal moment occurred in 1974 with the creation of the Real Estate Development Fund (REDF), which provided interest-free loans that would define the Kingdom's residential landscape.

During the 1980s⁸, formal real estate valuation began to emerge, initially for inheritance purposes and later expanding as banks used property as collateral for loans, marking the sector's first steps toward formalization.

Post-2000s, the sector experienced both growth and challenges. Fluctuating oil revenues occasionally slowed development, prompting the government to establish

housing finance agencies and programs to stimulate private-sector participation. The 2008 global financial crisis accelerated market formalization, with practices like property valuation becoming standard to enhance stability, investor confidence and access to financing. These changes helped create a more professional and reliable real estate market.

The mid-2010s onward witnessed a strategic shift driven by Saudi Vision 2030, which emphasized diversification of the economy and development of non-oil sectors, including real estate. This era has seen a surge in large-scale, integrated developments, tourism-focused projects and smart city initiatives, such as NEOM and the Red Sea Project, reflecting both innovation and international collaboration. Public Private Partnerships (PPPs) became a key mechanism to finance and manage ambitious projects. While regulatory reforms aimed at transparency, real estate financing and urban planning created a more mature and investment friendly environment.

Major Credit Stress Points and Periods of Economic Downturn

Since 2008, the Saudi Arabian real estate market has moved through several distinct phases, influenced by global economic cycles, oil price dynamics, domestic policy reforms and evolving housing demand fundamentals. Periods of rapid expansion have alternated with phases of adjustment and correction, reflecting changes in liquidity conditions, affordability and regulatory intervention. The following timeline presents an analytical overview of these market phases from 2008 to 2025, providing context on how macroeconomic factors and policy decisions have shaped real estate activity, pricing trends and market momentum over time.

2008 to 2010: Global Financial Crisis Spillover and Market Stabilization

During 2008 to 2010, the Saudi real estate market remained relatively resilient despite the global financial crisis, with only limited direct disruption to transactions and development activity. While global liquidity constraints and investor caution were felt, domestic banks remained well-capitalized and mortgage penetration remained structurally low, insulating the sector from the sharp corrections observed in other countries⁹. Real estate prices and construction activity were largely supported by strong government spending, sustained infrastructure investment and robust domestic demand¹⁰. Government measures, including targeted liquidity support and continued public investment, helped maintain market stability, allowing the sector to continue its operations without a material downturn and positioning it for a gradual recovery¹¹.

2011 to 2014: Expansion Phase and Late Cycle Peak

Between 2011 and 2014, Saudi real estate experienced a pronounced expansion, supported by high oil prices, strong government spending, rapid population growth and rising urbanization¹². Transaction values increased sharply¹³, reaching a cyclical peak by 2013 to 2014, particularly in residential land and villa segments¹⁴. Anticipation and phased implementation of the mortgage law encouraged speculative and investment-driven demand, while housing supply remained structurally constrained. However, by 2014, growth began to decelerate, signaling late-cycle dynamics as affordability pressures emerged and price growth outpaced household income growth, leaving the market increasingly sensitive to policy or macroeconomic shifts¹⁵.

2015 to 2018: Structural Downturn and Credit Adjustment

The period from 2015 to 2018 marked a sustained downturn¹⁶ in the Saudi real estate cycle, representing the most significant phase of market stress in the past two decades. The introduction of stricter mortgage loan-to-value limits, typically capping financing at around 70% and requiring 30% downpayments, materially reduced effective end-user demand, particularly among middle-income buyers¹⁷. This coincided with the oil price collapse beginning in late 2014, which weakened economic sentiment, constrained fiscal spending and reduced private-sector confidence. A critical credit catalyst during this period was the 2016 implementation of the White Land Tax (2.5%), which transitioned idle land from a passive asset to a cost-intensive liability, prompting a strategic re-evaluation of land banks. As supply delivered during the prior boom years entered the market, oversupply became evident, driving declines in transaction volumes and downward pressure on prices¹⁸. The combination of policy-driven credit tightening, macroeconomic headwinds and inventory build-up resulted in prolonged market weakness and elevated credit risk for developers.

2019: Market Bottoming and Early Stabilization

By 2019, the Saudi real estate market began stabilizing after years of contraction. This was primarily catalyzed by the scaling of Vision 2030 housing programs (Sakani). The expansion of subsidized mortgage frameworks and the normalization of the 90% Loan-To-Value (LTV) ratio effectively lowered the entry barrier for end-users, restoring demand-side liquidity¹⁹. While aggregate activity remained below historical peak levels, the market demonstrated early signs of structural rebalancing and a significant reduction in downside risk. Central to this stability was the MOH-



SAMA collaboration, specifically the introduction of the Interest Rate Subsidy. By having the Real Estate Development Fund (REDF) assume interest payments for eligible borrowers, the framework effectively converted historically high-risk retail segments into bankable, low-risk assets. This mechanism was vital in ensuring that systemic bank credit risk remained contained despite the rapid acceleration in mortgage origination.

2020 to 2023: Pandemic Disruption Followed by Credit-Fueled Expansion

The COVID-19 pandemic only caused a brief pause in real estate activity in early 2020. The market recovered quickly after the government replaced the 15% VAT with a lower 5% Real Estate Transaction Tax (RETT), which kept buyers active. Between 2021 and 2023, the sector grew rapidly because of a significant increase in bank lending and continued government support for home ownership. From 2021 through 2023, the market entered a strong expansion phase, driven by rapid growth in mortgage lending and intensified housing support programs²⁰. This expansion was further intensified by the strategic suspension of land transactions in large northern districts of Riyadh, which constrained the available supply of developable plots during a period of peak demand. Residential prices rose sharply, particularly in Riyadh, reflecting strong demand from households, population inflows linked to Vision 2030 projects and improved mortgage accessibility²¹. By late 2023, however, signs of overheating became apparent as affordability deteriorated, household leverage increased and transaction momentum began to slow, indicating rising late-cycle risks²².

2024 to 2025: Market Cooling, Policy Intervention and Credit Moderation

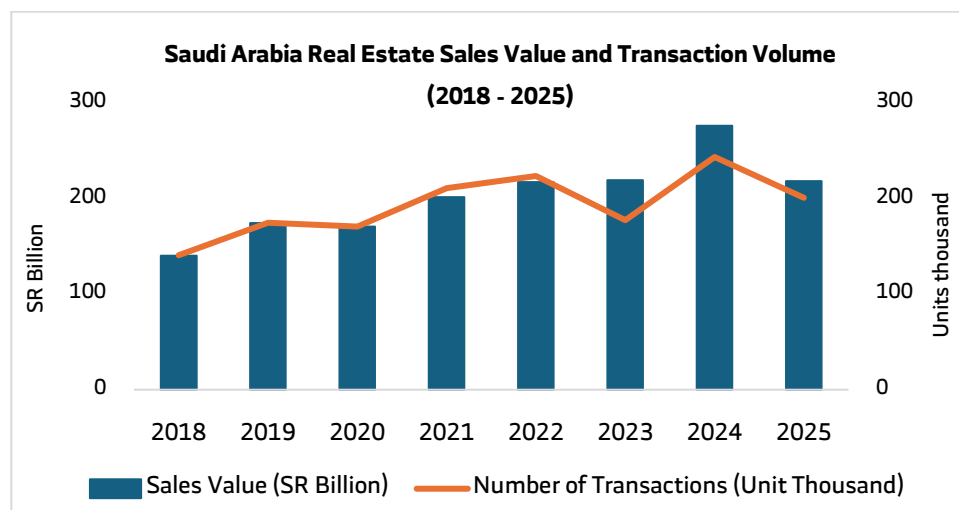
The 2024 to 2025 period reflects a deliberate transition toward market cooling and stabilization. Higher interest rates have materially reduced mortgage affordability, slowed transaction volumes and moderated price growth, with some residential segments experiencing outright price declines²³. In response to mounting affordability pressures, authorities introduced targeted policy interventions, including rental market controls in Riyadh and measures to accelerate housing supply²⁴. Banks adopted a more selective approach to real estate lending, prioritizing asset quality over volume growth²⁵. This phase represents an orderly correction rather than a systemic downturn, aimed at containing excesses from the prior expansion while preserving long-term market sustainability.

Market Size and Transaction Activity

The Saudi real estate market has experienced significant growth and transformation in recent years, driven by demographic expansion, rapid urbanization and strategic policy interventions under Vision 2030. The sector is primarily segmented into residential, commercial and agricultural, with residential and commercial assets accounting for the vast majority of transaction activity and overall market value.

In terms of market size by transaction value, Saudi Arabia's real estate sales nearly doubled from SR 140.3 billion in 2018 to SR 276.2 billion in 2024, highlighting strong demand and investor confidence. While COVID-19 temporarily moderated market activity in 2020, the sector rebounded in 2024 with 243,500 transactions, reflecting improved economic conditions and continued uptake of government housing programs. 2025 data indicate SR 218.1 billion in sales across 200,700 transactions,

reflecting a wait-and-see approach by investors on account of regulatory changes in 2025.



Source: Ministry of Justice⁴, Argaam²⁶

*Sales value data for 2021 is sourced from Argaam; however, transaction volume for the same year is not available.

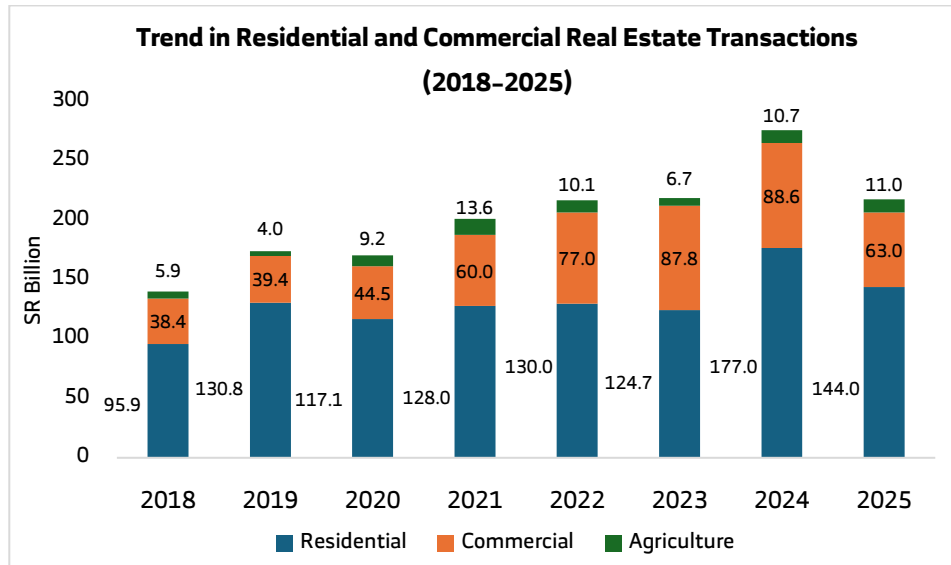
Note: Annual transaction value is calculated by aggregating transaction value and volume for all transactions occurring from 1st January to 31st December of the year.

By property type, residential real estate continues to drive market activity. Residential units remain the largest component of the sector, supported by government housing initiatives such as Sakani, mortgage finance programs and large-scale developments under Vision 2030. Commercial properties, including office spaces, retail units and industrial facilities, have grown steadily in line with corporate expansion and economic diversification objectives.

Breaking down the segments, residential transactions accounted for 66.1% of total real estate transaction value in 2025, with a 50.1% increase in absolute value from

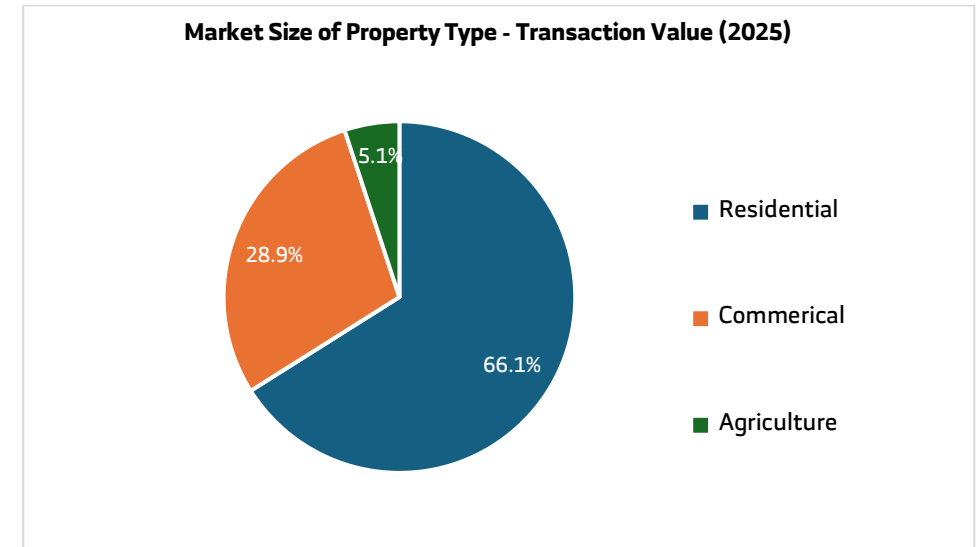
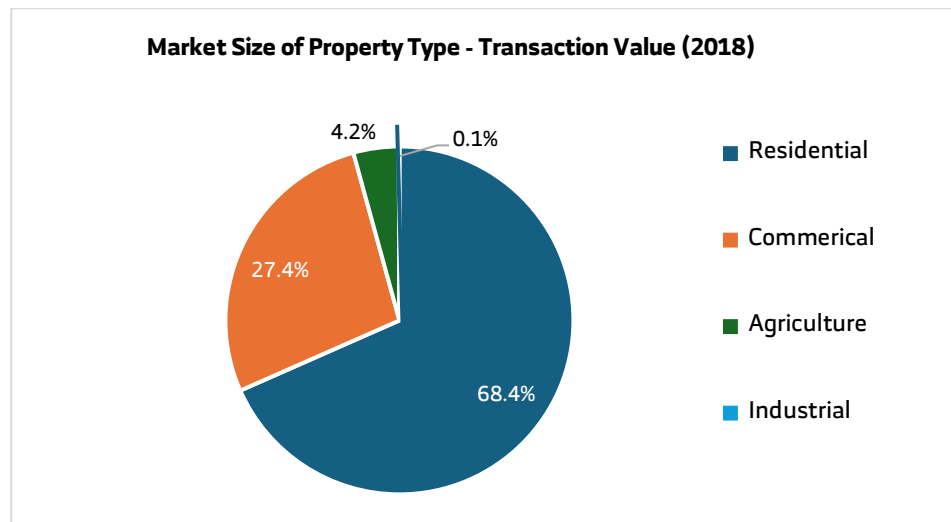
SR 95.9 billion in 2018 to SR 144 billion over the same period. The growth in residential transaction values has been driven by several factors. Rising population and urbanization have continued to fuel demand for housing in major cities such as Riyadh and Jeddah²⁷. This was largely driven by a national mandate to reach 70% homeownership by 2030. Government initiatives, including subsidized mortgage programs and the Kingdom's Housing Program (Sakani), have improved access to affordable home financing, supporting strong uptake across mid and high-income segments. Additionally, ongoing development of residential projects under Vision 2030 has expanded housing supply, contributing to increased transaction volumes and higher total values²⁸.

Commercial transactions, which represented 28.9% of total transaction value 2025, saw an absolute increase from SR 38.4 billion in 2018 to SR 63 billion over the same period, reflecting growing business and investor confidence in Saudi Arabia's commercial real estate market. The rise in valuations has been fundamentally supported by the Regional Headquarters Program (RHQ), which has catalyzed a record surge in Grade-A office demand. Economic diversification initiatives under Vision 2030, along with rising corporate demand and private investment inflows, have reinforced commercial sector growth, ensuring steady expansion in both transaction value and market relevance.



Source: Ministry of Justice⁴, Dar Al Arkan Investor Presentation²⁹

Note: Annual transaction value for segments is calculated by aggregating transaction value and volume for transactions occurring from 1st January to 31st December of the year.



Source: Ministry of Justice⁴

Real Estate Price Index Movement

Market conditions began to stabilize during 2020, as quarterly price movements gradually turned positive, indicating the early stages of recovery despite macroeconomic headwinds. A clear inflection point emerged in 2021, when price growth accelerated meaningfully across both residential and commercial assets. This momentum carried into 2022, which marked the peak of the current cycle, with headline real estate prices recording double-digit growth. Following the 2022 peak, Saudi Arabia's real estate market moderated in 2023 to 2025. The General Index showed slowing growth, easing from 8.7% in early 2023 to around -0.7% by 4Q2025, reflecting a broader cooling phase across the market.

Within the residential segment, the recovery was both broad-based and differentiated by asset type. Villa prices led the upcycle, reversing several years of decline to post strong double-digit growth through 2021 and 2022, reflecting

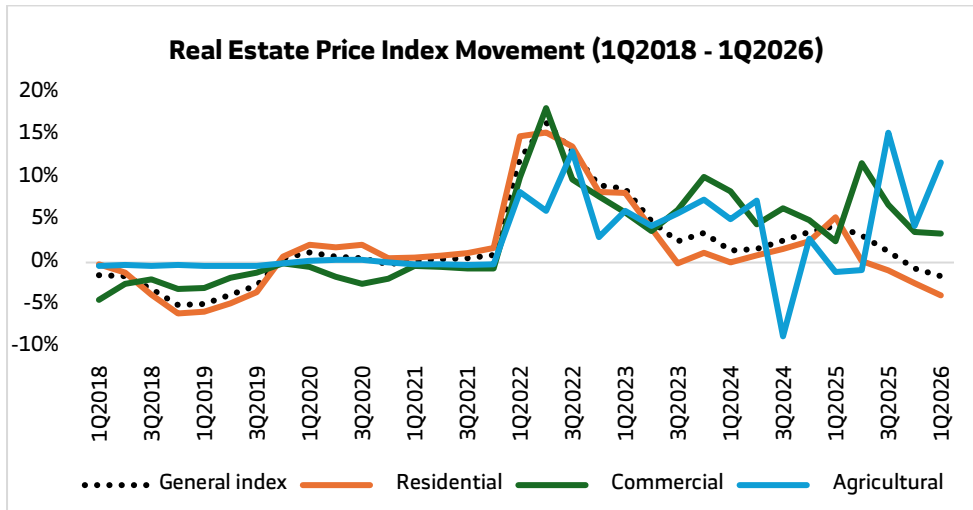
sustained end-user demand and a structural preference for larger housing formats. Apartment prices also increased sharply during this period, although the pace of growth was comparatively lower and began to moderate earlier, suggesting emerging affordability constraints. Residential land prices closely tracked the broader residential trend, benefiting from development activity during the expansion phase, while houses and residential buildings remained relatively subdued, showing limited participation in the rally.

From 2023 onward, residential price momentum softened noticeably, with growth decelerating to low single digits and occasional quarterly declines emerging in 2024 and 2025. This moderation points to a normalization phase following the sharp post-pandemic surge, rather than a renewed downturn, as prices consolidate at higher levels. The residential price decline observed in 4Q2025 was influenced by cooling policy measures, notably the Riyadh five-year rent freeze and White Land Tax³⁰ alongside affordability headwinds following rapid price rises, which collectively tempered buyer demand and moderated market momentum²³.

Commercial real estate followed a more cyclical pattern. After experiencing a prolonged downturn between 2018 and 2020, commercial prices rebounded sharply from 2021, reaching peak growth in 2022. Commercial land and buildings were the primary drivers of this recovery, while retail-oriented assets such as galleries and shops displayed greater volatility, reflecting structural shifts in demand. Commercial centers, meanwhile, remained largely flat throughout the cycle, indicating limited pricing momentum. In 2023, commercial prices maintained moderate but uneven growth, with land and buildings driving gains while galleries and shops were more volatile. In 2024, expansion continued at a slower, more stable pace as overall

commercial price growth moderated. By 1Q2025, the commercial price index surged, reflecting early-year strength, but growth moderated by 3Q2025, signaling a transition toward stabilization amid broader market cooling and evolving credit conditions²³.

The introduction of the White Land Tax in Saudi Arabia has structurally shifted market dynamics by discouraging land hoarding and incentivizing active development. As holding idle land now carries a cost, landowners are increasingly divesting plots to developers who are project-ready and capable of executing construction and bringing units to market. This has improved transaction liquidity and increased the overall churn in the land market, supporting faster conversion of land into built supply. Importantly, this trend reflects a market maturation process reducing speculative behavior and promoting efficient capital deployment rather than triggering a broad-based decline in land prices. Instead, prices are becoming more fundamentally driven, aligned with end-user demand and development feasibility, reinforcing the long-term stability of the Saudi real estate sector.



Source: Bloomberg³

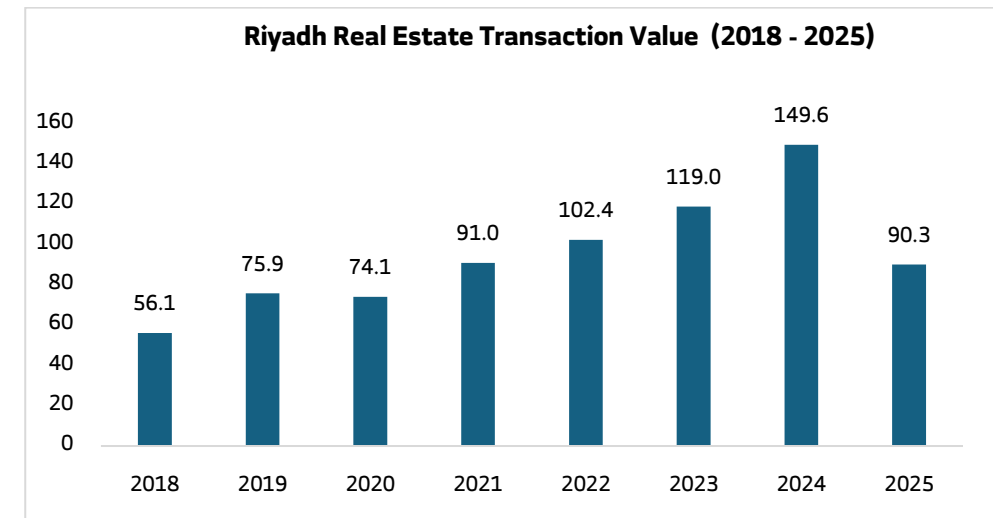
* REPI data pre-4Q2021 is not directly comparable with post-4Q2021 due to a change in methodology.

Source: GASTAT³¹

Riyadh: Strategic Significance and Market Scale for Real Estate Developers

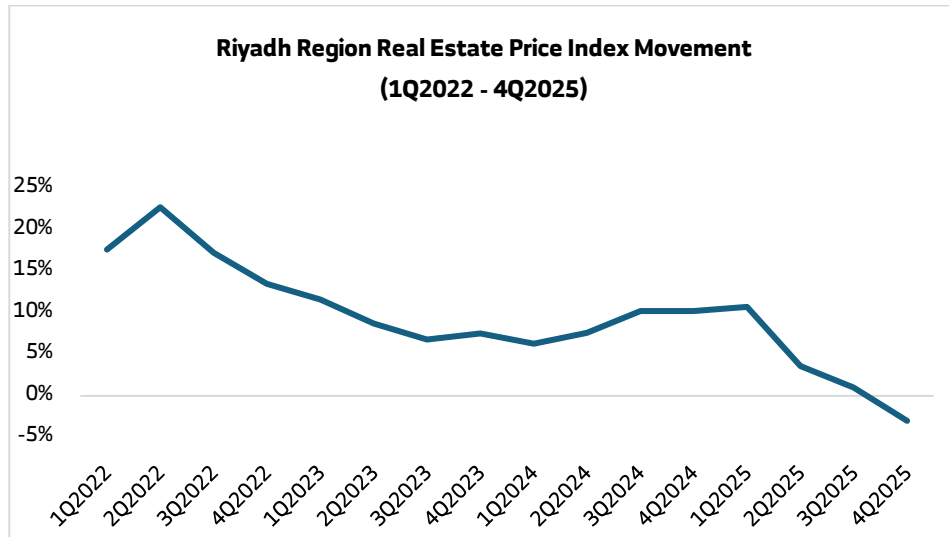
Riyadh region serves as the central pillar of the Kingdom's economic transformation, functioning as both the primary administrative hub and a critical engine for real estate liquidity. The Riyadh Region accounts for approximately 28% of national GDP and houses over 20% of the Kingdom's population, with economic activity heavily consolidated within the metropolitan capital. The region represents a focal point of business and investment that dictates the broader trajectory of the Saudi property market. The region's strategic significance is underscored by its transaction scale; between 2018 and 2024, transaction values surged by nearly 167%, peaking at SR 149.6 billion. However, the transaction value declined to SR 90.3 billion in 2025 due to affordability pressures, higher financing costs and regulatory measures.

Representing around 50% of all real estate activity in Saudi Arabia, Riyadh region acts as the market's systemic anchor, where sustained demand from infrastructure expansion and population migration provides a solid baseline that protects property values.



Source: Ministry of Justice⁴, Argam³²

Despite broader macroeconomic headwinds and higher interest rates, sale prices have demonstrated notable resilience, supported by deep-seated submarket demand. The Riyadh Real Estate Price Index (REPI) highlights a strategic transition: following an aggressive expansion in 2022—marked by a quarterly gain of 22.7% in Q2—growth has shifted toward a stabilized trajectory. Gains moderated to 1.1% in 3Q2025 and further dropped to -3% in 4Q2025, signaling a shift from speculative appreciation to a value-driven market. This price moderation is viewed as a systemic de-risking event, as it prevents the formation of asset bubbles and aligns property valuations closely with household affordability.



Source: GASTAT³¹

Strategic interventions have fundamentally reshaped Riyadh's supply-side dynamics. The 2025 release of restricted land in northern districts, alongside the tiered White Land Tax, has shifted the developer's priority from land banking to active project delivery. This environment necessitates a transition toward execution-led growth models to maintain competitiveness. Acting as a stabilizer for the capital's expanding residential base, the five-year rent freeze limits speculative yield spikes while providing a predictable environment for both tenants and creditors. This measure mitigates systemic risk by ensuring housing remains accessible, thereby protecting the integrity of the mortgage and rental ecosystems. Consequently, developers are now prompted to compete on operational excellence and project quality rather than relying on market-wide inflation.

Demand and Supply Dynamics

Key Demand Drivers Shaping Real Estate Growth

Youth Bulge: A Structural Demand Driver

Saudi Arabia's youthful demographic profile is a core structural driver of residential real estate demand. As of 2024, 69.4% of the population is under the age of 35, with the prime household-formation cohort (ages 15 to 34) accounting for 35.9% of the population³³. The entry of these demographic cohorts into the workforce and their subsequent household formation drives consistent, multi-year demand for residential assets, particularly in the affordable and mid-income segments where first-time buyers are concentrated.

This demand is most pronounced in high-growth regions such as Riyadh, Qassim and Tabuk, where youth concentration exceeds the national average, supporting strong absorption of mid-size residential units and master-planned communities near employment and lifestyle nodes. Beyond housing, the youth bulge also underpins demand for retail, education, leisure and community infrastructure, reinforcing mixed-use development viability. For developers, this demographic structure provides a long-duration and predictable demand pipeline, supporting project phasing, sales visibility and sustained development activity aligned with Vision 2030 urbanization objectives.

Nuclear Family Formation: Emerging Structural Housing Demand

Shifts in household composition are reinforcing structural housing demand in Saudi Arabia. According to the General Authority for Statistics (GASTAT), nuclear families account for ~69.5% of Saudi households³⁴, while extended families represent a

smaller share, alongside a growing proportion of single-person households. This evolution toward smaller, autonomous household units increases the total number of housing units required, even in the absence of accelerated population growth.

As families increasingly form independent households, demand is rising for apartments, townhouses and mid-sized single-family homes suited to nuclear living arrangements. When combined with the Kingdom's youthful demographic profile, this structural shift supports sustained residential absorption and underpins medium- to long-term development opportunities, particularly in urban and suburban markets where household formation is most active.

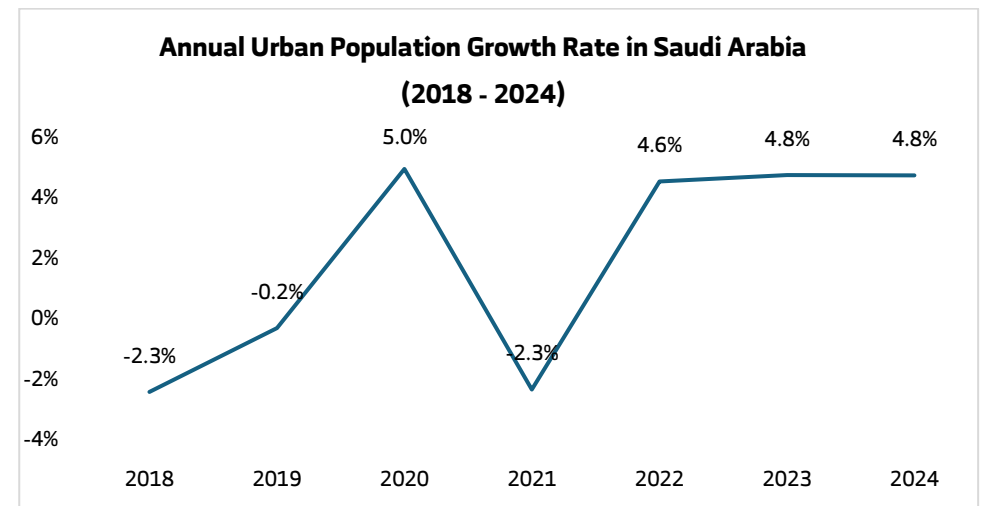
Government Housing and Finance Programs: Supporting Residential Demand

Government-backed housing and mortgage programs, spearheaded by the Sakani program and the Real Estate Development Fund (REDF), continue to play a critical role in stimulating residential demand and expanding homeownership. In 1H2025, more than 48,000 Saudi families moved into their first homes, while subsidized mortgage agreements increased by 63% year-on-year, with over 27,000 loans issued to low-income households, exceeding official targets³⁵.

These programs support a broad range of households, including young couples forming nuclear families, and facilitate demand across mid and high-income residential segments. By reducing financial barriers, they accelerate residential absorption and stimulate development in both urban and suburban areas. Beyond housing, such initiatives indirectly benefit commercial real estate, as growing residential communities increase demand for retail, office and mixed-use facilities nearby.

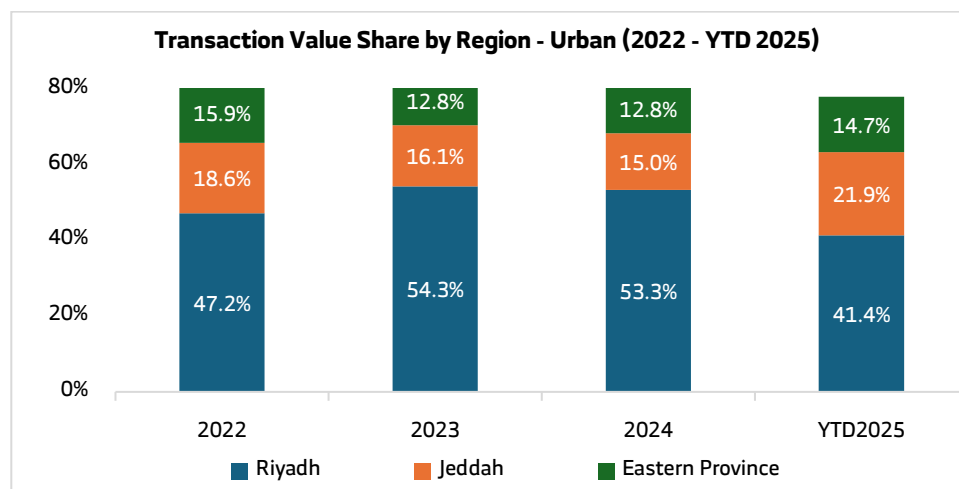
Urbanization: Sustained Urban Migration Driving Real Estate Demand

Urbanization remains a structural driver of real estate demand in Saudi Arabia, with ~84% of the population residing in urban areas as of 2024, according to World Bank³⁶. Continued urban population growth, averaging 4.6 to 4.8% between 2022 and 2024, reflects sustained rural-to-urban migration, employment-led relocation and metropolitan expansion. As population growth is largely absorbed by existing cities, demand pressure remains concentrated on urban housing stock, land and supporting infrastructure. The trend is further reinforced by a growing expatriate population, particularly in major cities such as Riyadh, which is expected to host over 5.5 million expatriates by 2030, supporting labor-intensive sectors and residential demand³⁷. As the number of regional headquarters, business licenses and corporate offices increases, these professionals and their families create additional housing demand, particularly for urban apartments and mid-sized residences.



Source: IMF³⁸

This dynamic is reflected in transaction activity, with Riyadh accounting for over 50% of national real estate transaction value in 2023 to 2024, driven by increasing urban density, economic centrality and large-scale development initiatives. Secondary cities such as Jeddah and the Eastern Region continue to capture a significant share of activity, reinforcing a multi-city urban growth pattern. Looking forward, the population expansion targets set under Vision 2030, encompassing both the domestic and expatriate segments, are projected to drive consistent demand across the residential, commercial and mixed-use sectors. Riyadh is expected to maintain its position as the Kingdom's primary real estate hub, catalyzed by concentrated infrastructure investment and corporate headquarters migrations.



Source: Ministry of Justice⁴

YTD 2025 – from January 2025 to November 2025

Regional Headquarters Program (RHQ): Policy-Driven Commercial Demand

The RHQ program, a cornerstone of Vision 2030, is rapidly reshaping Riyadh's office market by requiring multinational companies to establish regional headquarters in

Saudi Arabia to qualify for government contracts. Fully enforced from January 2024, the program attracted over 700 RHQs by 2025, surpassing the original target of 500³⁹. Major global firms, including Deloitte, Unilever, and PepsiCo, have established their regional headquarters, significantly improving the counterparty credit profile of the Kingdom's commercial tenant base.

This policy-driven influx has directly impacted the Grade-A office segment. Riyadh's Grade-A office vacancy reached near zero 0.2% in 2024, reflecting strong absorption as RHQs occupy high-quality space. Concurrently, office rents increased by 18 to 23% year-on-year, underscoring competitiveness for premium stock. To accommodate rising demand, around 326,600 sqm of new office space was delivered in 2024, primarily through initial phases of King Abdullah Financial District (KAFD), Laysen Valley and Digital City. By end 2026 more than 900,000 sqm of Grade-A space is scheduled for delivery⁴⁰, largely concentrated in major developments such as Diriyah Gate, Misk City, KAFD expansions and business park clusters in Riyadh, indicating that developers are actively responding to structural absorption pressures.

Infrastructure Development: Unlocking New Growth Corridors for Saudi Real Estate

Infrastructure expansion is a key structural driver of real estate demand in Saudi Arabia. Vision 2030-aligned projects such as the Riyadh Metro, King Salman International Airport and new logistics corridors enhance connectivity, reduce travel times and unlock previously underdeveloped areas, stimulating both residential and commercial property growth.

For developers, these initiatives support higher land values, improved project feasibility and stronger market uptake. Enhanced transport and utilities make



peripheral locations more attractive for housing, retail and office projects, while mega developments generate localized demand for communities, retail hubs and logistics facilities, underpinning sustainable medium to long-term growth across the real estate sector.

Demand and Supply Gap - Overall Market Insight

Residential Market Absorption and Gaps

Saudi Arabia's real estate market continues to present significant opportunities, as demand from both Saudi households and expatriate residents outpaces the available housing supply across key regions. The residential sector remains robust, driven by strong population growth among Saudi citizens, rising urbanization and increasing aspirations for homeownership trends that are now extending into the expatriate community.

According to the Housing Statistics Bulletin 2024⁴¹, Saudi households occupy approximately 4.39 million housing units, accommodating around 21.7 million individuals, with an average household size of 4.9 persons. Based on total occupied units and population figures, non-Saudi households occupy roughly ~4.3 million units, housing about 13.6 million individuals, with an average household size of ~3.2 persons per dwelling. Combined, the country's residential housing stock totals 8.67 million units, serving a population of 35.3 million, which gives a national average household size of ~4.1 persons per dwelling.

Given the concentration of population in urban centers, as explained in the section titled 'Urbanization: Sustained Urban Migration Driving Real Estate Demand', urban centers dominate the Saudi housing landscape, with Riyadh and Makkah together

accounting for nearly 48% of occupied units. Meanwhile, peripheral regions such as Al-Jouf, Northern Borders, and Najran exhibit higher average household sizes (5 to 6 persons per dwelling), signaling latent demand and potential for targeted residential development.

Looking ahead, population growth targets under Vision 2030 and initiatives such as RHQ expansions are expected to increase demand for residential units, particularly in major urban centers and economic hubs. The significant expatriate population, often with smaller household sizes than Saudi families, will continue to shape housing demand patterns, underscoring the need for diversified residential solutions. This trend is further supported by the foreign ownership law effective from 2026, which facilitates property investment and ownership by non-Saudis, expanding the pool of potential buyers and creating additional opportunities for residential development across urban markets.

A Knight Frank/Al-Rajhi Capital industry assessment⁴² estimates total housing demand of around 1.2 million units by 2030, while expected supply in major cities, including government-led and private projects, is closer to ~800,000 units, suggesting a near-term residential supply deficit, particularly in the affordable segment.

This shortfall is evident in major urban markets such as Riyadh and Jeddah. In Riyadh alone, residential stock reached approximately ~1.5 million units, with 16,200 units⁴³ delivered in 1H2024, yet demand continues to outpace additions, sustaining price and rental pressures. Consequently, the market remains characterized by high absorption rates, securing the long-term credit profile of developers positioned within these high-growth urban hubs.

Saudi Arabia Residential Occupancy and Density Metrics (As of 2024)

Region	Housing Units (Occupied)	Population (Individuals)	Average Household Size
Riyadh	1,052,211	5,216,387	4.96
Makkah	1,047,201	4,864,973	4.65
Eastern Region	700,039	3,383,265	4.83
Asir	320,804	1,632,258	5.09
Al-Madinah Al-Monawarah	315,193	1,545,129	4.90
Jazan	220,403	1,125,794	5.11
Al-Qaseem	203,343	1,055,155	5.19
Tabouk	138,004	716,841	5.19
Hail	111,761	602,551	5.39
Northern Borders	52,053	310,075	5.96
Najran	82,560	456,997	5.54
Al-Baha	59,062	283,609	4.80
Al-Jouf	84,597	498,095	5.89
Saudi Household	4,387,231	21,691,129	4.94
Non-Saudi Household	4,283,186	13,609,151	3.18
Total	8,670,417	35,300,280	4.07

Source: GASTAT⁴⁴

Note: Non-Saudi and total figures are calculated based on the GASTAT Housing Statistics Bulletin 2024, which reports that 50.6 % of occupied housing units are held by Saudi households, implying the remaining 49.4 % are held by non-Saudis. The non-Saudi population is estimated by subtracting the Saudi population from the total population and applying this proportion.

Commercial Real Estate Demand and Supply Dynamics

Saudi Arabia's commercial real estate market remains supply-constrained amid strong demand. According to the Real Estate General Authority (REGA), 59,575⁴⁵ commercial lease contracts were registered in January 2024 alone, bringing total commercial leases to over 1.5 million, with office rentals growing ~26 % year-on-year. Price indices indicate commercial property values rose 6.8 % year-on-year in 3Q2025,

reflecting strong investor and occupier interest. In Riyadh, leasing volumes and rental growth remain the highest nationwide, while Jeddah shows rising demand across offices and retail, highlighting the city's growing role as a commercial hub. Overall, rising lease registrations and price growth underscore a tight market where demand outpaces supply, particularly for Grade-A offices and prime retail, contributing to the broader demand-supply gap across Saudi Arabia's real estate sector.

Supply Landscape: Giga-Projects vs. Private Sector Delivery in KSA

Saudi Arabia's real estate supply landscape reflects a dual engine of development: government-sponsored giga-projects that are shaping the long-term structural transformation of urban and economic geography and ongoing private-sector delivery that responds to real demand, market cycles and commercial viability. Together, these supply sources define the trajectory of available stock across residential, commercial, hospitality, logistics and mixed-use sectors, with important implications for pricing, absorption and investor returns.

Top GIGA Projects (Government-Led / Transformational)

Under Vision 2030, the Saudi government has launched some of the most ambitious real estate and urban transformation programs in the region. Examples include NEOM (The Line / Oxagon / Trojena), The Red Sea Project, Qiddiya and Diriyah Gate, among others. These initiatives represent multi-decade build-outs with an emphasis on tourism, tech-enabled cities, sustainability and economic diversification. Because they are primarily government-funded or facilitated and integrated with sovereign or semi-sovereign development entities (e.g. PIF⁴⁶)

Top GIGA Projects

Project	Description	Target Completion	Location
NEOM	A futuristic, innovation-driven city integrating sustainability, high-tech industries, advanced mobility, THE LINE (linear urban development), Oxagon (industrial hub), Trojena (mountain destination), green hydrogen production, and smart services to redefine living, work, and tourism. NEOM will cover 26,500 square kilometers and will be powered by 100% renewable energy.	2045 ⁴⁷	Tabuk Province
Qiddiya	A landmark entertainment, sports, culture, and lifestyle city near Riyadh designed to host vibrant mixed-use communities with world-class theme parks, esports, gaming districts, motorsport facilities, performing arts venues, and extensive leisure attractions. It is projected to be home to around 600,000 residents, attract up to ~48 million annual visitors, generate 325,000+ jobs, and contribute significantly to Saudi GDP as a global tourism and lifestyle destination. The project will cover 376 square kilometers of land area.	2030 ⁴⁸	Near Riyadh
Red Sea Global	A luxury regenerative tourism developer creating sustainable resorts like The Red Sea and AMAALA, aiming to generate tens of thousands of jobs, attract ~1.5 million annual visitors, and contribute significantly	2030 ⁴⁹	Western Coast

	to GDP, while using 100% renewable energy and supporting environmental conservation. The Red Sea, covering 28,000 square kilometers, is surrounded by the world's fourth-largest barrier reef system.		
ROSHN Group	Launched in 2018 as a national developer to support Saudi Vision 2030's 70% homeownership goal, ROSHN is creating modern, community-focused living across KSA. The group manages a +200 sq km land bank, plans to deliver 400,000 new homes with a capacity for 2.2 million residents by 2030, supporting sustainable urban growth and economic diversification.	2030 ⁵⁰	Multiple Cities
Diriyah Company	Transforming Saudi Arabia's historic Diriyah into a cultural and heritage destination with luxury hotels, museums, entertainment, and retail. Expected to attract ~50 million visitors by 2030 and create ~178,000 jobs, boosting tourism and contributing significantly to GDP.	2030 ⁵¹	Riyadh

Source: PIF, Secondary Research

Top Private Sector Developments

Project	Description	Target Completion	Developer & Operator
The Avenues	Large mixed-use commercial, retail, hospitality and office development (includes hotels like Waldorf Astoria, Canopy by Hilton, Conrad + residential and office towers).	2026 ⁵²	Developed and operated by Shomoul Holding Company

Trump Plaza Jeddah	\$1 billion Trump-branded mixed-use complex featuring upscale residences, serviced apartments, Grade-A offices, retail and leisure components.	2029 ⁵³	Dar Global / Dar Al Arkan in partnership with The Trump Organization
Trump Tower Jeddah	Ultra-luxury residential tower & private club with high-end apartments and amenities; 47 floors.	2029 ⁵⁴	Dar Global / Dar Al Arkan in partnership with The Trump Organization
Retal Urban Residential Project	Large residential development of villas and apartments including infrastructure and commercial elements as part of a masterplan.	Ongoing, phased delivery ⁵⁵	Retal Urban Development Company
Konoz	Integrated mixed-use development with office, retail, F&B, entertainment, hotel, serviced apartments and residences.	Ongoing, phased delivery ⁵⁶	Abdullah Al Othaim Investment Company

Source: Secondary Research

As the Kingdom's development cycle matures into 2026, the government has transitioned from a phase of universal expansion to one of strategic prioritization. This recalibration is designed to prevent economic overheating and to ensure that capital is deployed where it generates the highest immediate impact. Under this "phased delivery" model, resources are being concentrated on projects essential for upcoming global milestones—such as Riyadh Expo 2030 and the 2034 FIFA World Cup infrastructure—while the timelines for more speculative, long-horizon components of certain giga-projects have been extended.

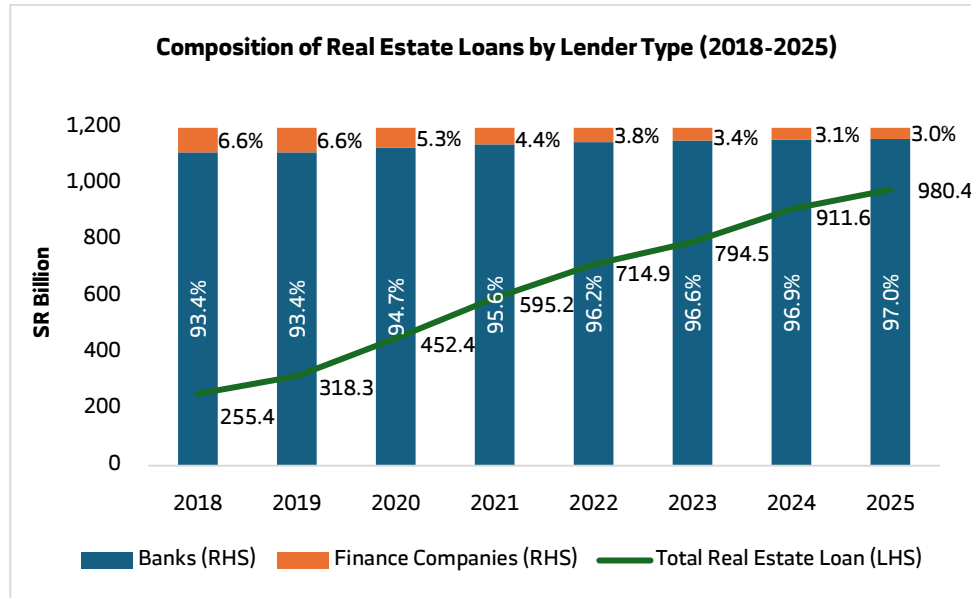
From a risk analyst perspective, this shift is seen as a de-risking mechanism. By moderating the pace of construction, the government is successfully easing inflationary pressures on labor and raw materials, which had previously strained the private sector. Rather than indicating a reduction in ambition, this tactical adjustment ensures that the supply coming online is effectively aligned with the market's absorptive capacity. This managed approach supports long-term price stability and provides a more predictable environment for institutional investors and developers.

Overview of Real Estate Financing Landscape

Saudi Arabia's real estate loan outstanding has expanded materially, rising from SR 255.4 billion at end 2018 to SR 980.4 billion by end 2025, underscoring the sector's structural importance to the financial system. This growth underscores the sector's fundamental role within the broader financial system. While growth accelerated during 2020 to 2022 amid supportive housing policies and favorable financing conditions, momentum has moderated in the subsequent tightening cycle. Nevertheless, outstanding balances have continued to increase, reflecting the long-term nature of mortgage lending, resilient end-user demand and ongoing housing supply absorption.

The lending landscape has become increasingly bank-centric, with commercial banks' share of total real estate loans rising from 93.4% in 2018 to 97% by end 2025, as bank exposures expanded to SR 951.3 billion. This reflects banks' superior funding access, balance sheet depth and ability to price long-duration assets through the rate cycle. In contrast, finance companies' participation has declined structurally, with their share falling from 6.6% in 2018 to 3% by end 2025, despite absolute

balances rising modestly to SR 29.1 billion by end 2025. This indicates that while finance companies continue to grow in nominal terms, they are losing relative relevance as banks capture the bulk of incremental mortgage growth.

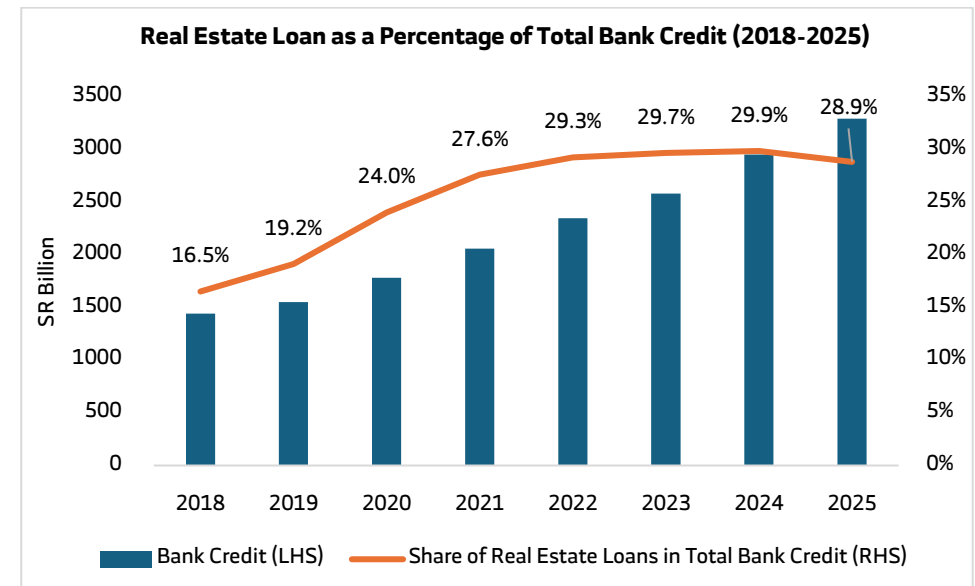


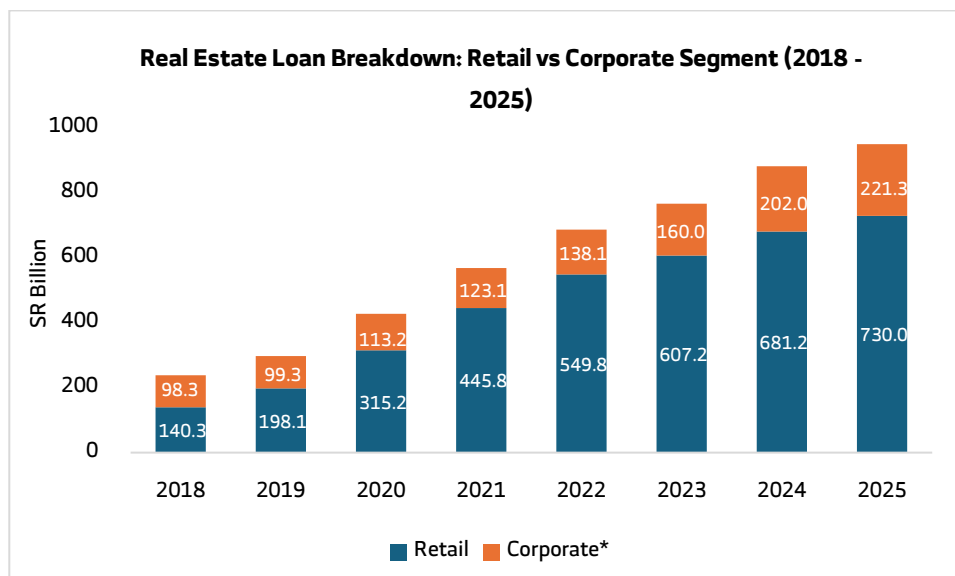
Source: SAMA⁵⁷

Expansion of Real Estate Loans in Saudi Banks' Credit Portfolios

Real estate lending has become a structurally significant pillar of Saudi banks' balance sheets, with total real estate loans increasing from SR 238.5 billion at end 2018 to SR 951.3 billion by end 2025. Over the same period, the share of real estate loans in total bank credit rose from 16.5% to 28.9%, indicating that close to one-third of bank lending is directly linked to the real estate sector. This steady trajectory reflects sustained mortgage demand and extended loan tenors, underpinned by the progressive seasoning of multi-year portfolios and the pivotal role of housing finance in the Kingdom's broader economic transformation.

Within banks' real estate portfolios, retail mortgages remain the dominant driver, accounting for 77% to 80% of total real estate loans since 2021. Retail exposure expanded from SR 140.3 billion at end 2018 to SR 730.0 billion by end 2025, driven by owner-occupied housing demand and policy-led homeownership initiatives. Corporate real estate i.e. bank credit extended to real estate developers and real estate projects for land acquisition, construction, development and commercial property portfolios lending also increased in absolute terms, reaching SR 221.3 billion at end 2025, but its share declined structurally from 41.2% at end 2018 to 23.3% by end 2025, highlighting a sustained shift toward lower-risk, amortizing retail assets.





Source: SAMA⁵⁷

*Note: Corporate real estate loans include financing provided to real estate developers and funds involved in real estate projects, as detailed by Arab News⁵⁸.

GCC Real Estate Loans vs. Total Lending (End-2024)

Country	Saudi Arabia	UAE	Qatar	Bahrain	Kuwait
Real Estate to Banking Loan	29.9%	20.0%	20.4%	28.1%	18.1%

Source: SAMA⁵⁷, Central Bank UAE⁵⁹, Commercial Bank Qatar⁶⁰, Central Bank of Bahrain⁶¹, Central Bank of Kuwait⁶²

Note: The breakdown of loans specifically to real estate developers is not available for GCC peers. Therefore, this table considers total real estate loans broadly across each banking sector.

Compared with GCC peers, Saudi Arabia's concentration ratio—approaching 30% in 2026—is the highest in the region. This underscores the banking sector's outsized

role in anchoring the national housing agenda, a factor that provides high-asset-security but requires ongoing monitoring of interest rate sensitivity and long-term liquidity matching.

Mortgage Finance Trends and Interest Rate Sensitivity

Mortgage financing activity in Saudi Arabia has exhibited cyclical over the past years, closely tracking movements in the Saudi Central Bank's (SAMA) policy rates. Bank-led mortgage lending expanded sharply during the low-interest rate environment of 2019 to 2021, with annual disbursements rising from SR 27.7 billion in 2018 to a peak of SR 152.5 billion in 2021. This growth was underpinned by accommodative monetary policy, improved affordability and strong end-user housing demand.

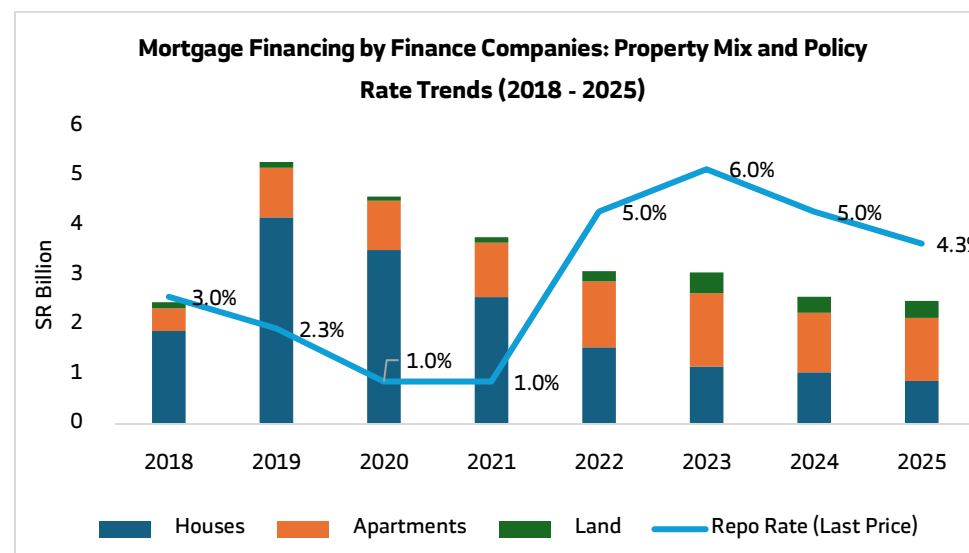
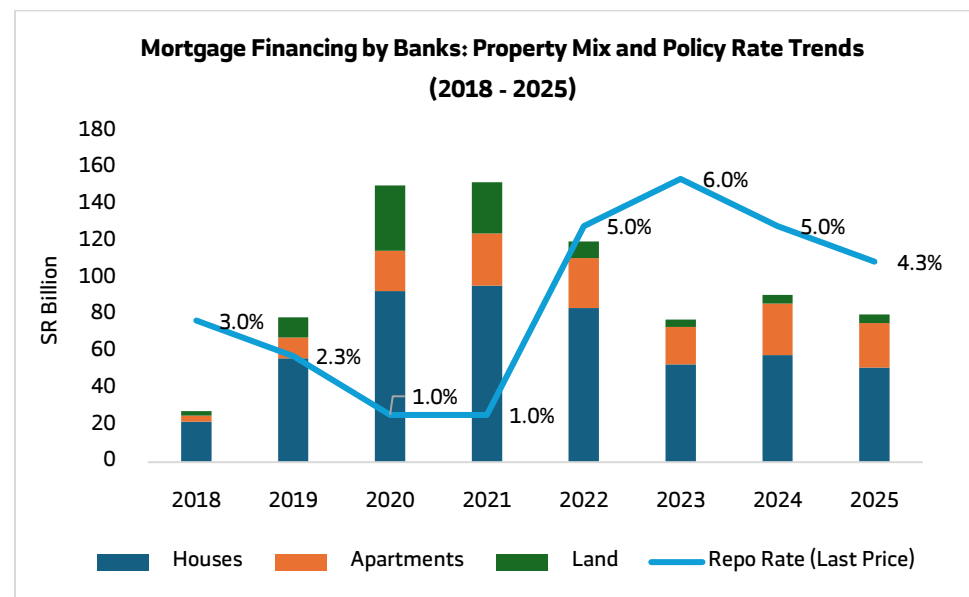
The tightening cycle that began in 2022 materially altered market dynamics. As SAMA's repo rate increased from 1% in 2021 to 5% in 2022, and further to 6% in 2023, bank mortgage disbursements declined to SR 120.3 billion in 2022 and SR 77.7 billion in 2023, reflecting higher borrowing costs and weaker affordability. Lending stabilized in 2024 at SR 91.1 billion, supported by a reduction in the repo rate to 5%, while 2025 disbursements of SR 80.4 billion indicate continued recovery momentum amid further repo rate easing to 4.25%, with total mortgage financing exceeding 2023 levels.

Within this cycle, the Saudi Real Estate Refinance Company (SRC) has emerged as a key counter-cyclical liquidity and balance-sheet management institution. By refinancing residential mortgage portfolios acquired from banks and finance companies rather than originating loans, SRC releases capital and liquidity that lenders can redeploy into new mortgage origination.

Across asset classes, residential mortgages continue to be dominated by houses, while apartment financing has grown, reaching SR 24.3 billion in 2025. This shift highlights a structural move toward more affordable housing formats as households adjust to higher financing costs and affordable housing. Land financing, by contrast, has been the most interest-rate-sensitive segment, declining sharply after peaking in 2020 amid reduced speculative activity and tighter credit conditions.

Mortgage lending by finance companies follows a similar but more pronounced cycle. Disbursements peaked at SR 5.3 billion in 2019 before declining steadily to SR 2.6 billion in 2024 and SR 2.5 billion in 2025, underscoring the sector's higher sensitivity to funding costs and risk appetite during periods of monetary tightening. Apartment financing has become the dominant product for finance companies.

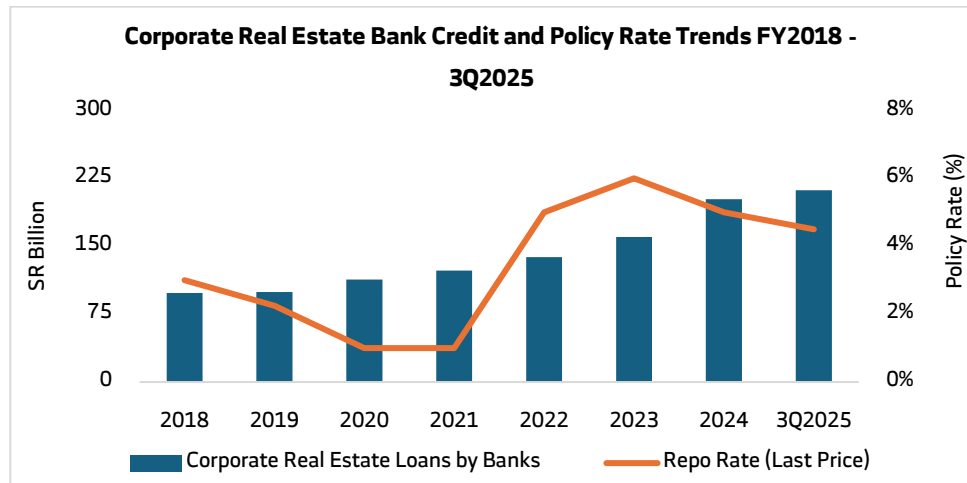
Looking ahead, a gradually easing interest rate environment, coupled with SRC's continued liquidity provision and risk transfer to capital markets, is expected to support renewed mortgage growth, faster housing absorption and improved visibility for real estate development activity across Saudi Arabia over the long term.



Source: SAMA⁵⁷, Bloomberg³

Corporate Real Estate Financing: Scale, Structure and Constraints

Corporate real estate lending by Saudi banks has expanded steadily in absolute terms, increasing from SR 98.3 billion at end 2018 to SR 221.3 billion by year-end 2025. This growth reflects the massive scale-up of development activity under Vision 2030, with momentum accelerating post-2022 despite sharp tightening in monetary conditions. Corporate balances rose by more than 50% between 2022 and 2024, signaling a calibrated re-engagement by banks with high-quality, institutional-grade projects. However, this expansion occurred amid headwinds of a high-interest rate cycle; the SAMA repo rate peaked at 6.0% in 2023 before easing toward 4.25% by the end of December 2025, a cycle that has fundamentally reshaped both deal pricing and debt structuring.

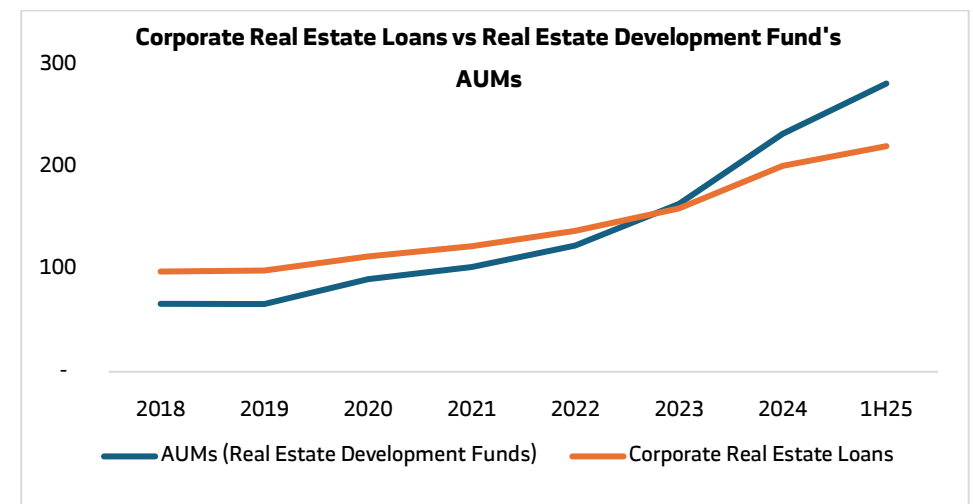


Source: SAMA⁵⁷

Despite steady growth, corporate real estate lending remains structurally constrained compared to retail mortgages due to higher credit risk, project concentration and execution challenges.

While banks are now re-engaging with developers, supported by regulatory and diversification initiatives, funding challenges persist. Developers continue to face stringent underwriting standards, high collateral, cash-flow requirements and limited availability of tailored project-finance structures. Consequently, bank lending is often used selectively within hybrid capital structures rather than as a primary funding source.

To address these constraints, developers are increasingly moving away from traditional bank loans in favor of more flexible, collaborative financing models. Crucially, corporate credit growth now exhibits an extraordinary correlation (0.997) with the expansion of Assets Under Management (AUMs) of Real Estate Development Funds, which reached SR 283 billion at end 1H2025. This correlation indicates that Saudi financial institutions have moved away from standalone lending models. Instead, an integrated model based on leverage has emerged, wherein investment funds provide the foundational equity and institutional oversight necessary to facilitate the deployment of bank debt to real estate funds.



Role of the Saudi Real Estate Refinance Company (SRC)

Established in 2017 as a wholly owned subsidiary of the Public Investment Fund (PIF)⁶³, the Saudi Real Estate Refinance Company (SRC) has emerged as a central pillar of the Kingdom's housing finance ecosystem. Licensed by the Saudi Central Bank (SAMA) to operate in the secondary mortgage market, SRC is mandated to enhance liquidity, stabilize the residential sector and support the Vision 2030 target of 70% homeownership. By purchasing mortgage portfolios from banks and finance companies, SRC provides essential long-term funding and capital relief. This enables primary lenders to strengthen their balance sheets and expand the origination of mortgage products at competitive rates.

The company's transition toward an Originate-to-Distribute (OTD) model achieved significant maturity in 2025, marked by the landmark launch of the Kingdom's first-ever Residential Mortgage-Backed Securities (RMBS) transaction under its Local Securitization Program in August. This strategic shift facilitates the recycling of capital by aggregating mortgage portfolios and securitizing them for domestic and international investors. SRC's systemic impact was further evidenced by high-profile liquidity injections, including a SR 3.4 billion portfolio acquisition from Saudi National Bank (SNB) in February 2025⁶⁴ and cumulative refinancing agreements with Al-Rajhi Bank totaling SR 10 billion⁶⁴. These transactions underscore SRC's role in ensuring sustained access to funding and increasing depth within the secondary mortgage market.

SRC's financial trajectory from 2022 to 2025 reflects an aggressive and successful integration with global capital markets. The company's total refinanced assets grew from SR 18.4 billion at end 2022 to SR 42 billion by year-end 2025, driven by a

significant expansion in both Murabaha (SR 26 billion) and Ijara (SR 16 billion) receivables. To fund this expansion, SRC pivoted sharply toward market-based financing, with Debt Securities issued nearly tripling from SR 13.8 billion at end 2022 to SR 37.1 billion in 2025. This was highlighted by the successful pricing of a USD 2 billion tranche under its international Sukuk program listed on the London Stock Exchange⁶⁵ in March 2025. The heavy oversubscription of these issuances reflects global confidence in SRC's creditworthiness and the structural integrity of the Saudi housing finance sector. It is worth mentioning that nearly all the debt on the balance sheet of SRC is guaranteed by the Ministry of Finance.

Beyond liquidity provision, SRC strategically drives the development and modernization of the residential mortgage ecosystem in Saudi Arabia. By linking Saudi mortgage portfolios to global capital markets and implementing innovative funding solutions, SRC not only enhances market resilience and investor confidence but also contributes to Saudi Arabia's broader economic development objectives.

Systemic Risk Mitigants and Credit Performance Stability

The Saudi real estate finance sector is characterized by structurally low default rates, underpinned by a regulatory framework and institutionalized payment discipline. Unlike many international jurisdictions where credit performance is highly sensitive to broader economic volatility, the Kingdom's residential mortgage segment has demonstrated exceptional resilience. This stability is the result of a multi-layered protective ecosystem designed to prioritize debt service and ensure high repayment consistency across the national borrower base.

- **Institutionalized Payment Security**

The primary anchor for credit stability is the salary assignment system. Under this framework, a significant majority of residential mortgages are serviced through direct deductions from the borrower's payroll account at the lending institution. This mechanism virtually eliminates the risk of behavioral default, as mortgage obligations are satisfied at the source before funds are accessible for discretionary expenditure.

- **Collateral-Backed Lending**

The sector's resilience is further reinforced by a lending model where credit exposure is strictly collateral backed, ensuring banks hold tangible security against every loan. This asset-based security is stabilized by the White Land Tax (WLT), which discourages land hoarding and curtails the speculative bubbles often seen in other markets. Additionally, the legal classification of mortgages as recourse loans provides a powerful incentive for borrowers to fulfill their obligations, as liability extends beyond the collateral itself to include personal assets and future income.

- **Prudential Underwriting and Debt Service Governance**

Credit quality is further reinforced by the Saudi Central Bank (SAMA) through the enforcement of conservative Debt Burden Ratio (DBR) caps. By strictly limiting a borrower's total monthly debt obligations relative to their net income, the regulatory framework ensures that homeowners maintain a financial cushion. This prudential approach prevents the over-leveraging of households and maintains affordability even during periods of rising living costs or interest rate adjustments.

- **Government-Led De-Risking and Affordability**

The Kingdom's housing policy includes robust profit-support initiatives, such as the Sakani program and the Real Estate Development Fund (REDF). By subsidizing a substantial portion of the interest burden for eligible citizens, the government significantly lowers the effective monthly installment. This reduction in the debt-service burden enhances the long-term sustainability of the loan and serves as a proactive credit mitigant, particularly for the mid-market residential segment.

Government Support to Real Estate Development

Saudi Arabia's housing and real estate sector faced structural constraints that limited affordability, supply delivery, and citizen's access to sustainable housing solutions prior to the launch of Saudi Vision 2030. Homeownership levels were below 50%⁶⁶, the waiting period for housing assistance reached up to 15 years⁶⁷, and rapid demographic growth intensified demand pressures against limited housing stock. These imbalances highlighted the need for systemic reform, prompting the government to introduce comprehensive policy transformation under Vision 2030 to expand supply capacity, expand the depth of housing finance markets, strengthen institutional efficiency and improve long-term real estate sector sustainability⁶⁸.

In response, Saudi Vision 2030 catalyzed a comprehensive restructuring of the housing and real estate ecosystem, addressing constraints across supply affordability, financing access and delivery efficiency. The reform agenda spans policy, regulation, financing, digital enablement and urban development, laying the foundation for a more scalable, transparent, and resilient real estate market.

Policy Framework and Institutional Architecture

Saudi Arabia's real estate sector is supported by a dedicated institutional framework designed to strengthen governance, improve execution quality and enhance investor confidence. These institutions play a central role in housing supply creation, regulatory oversight, capability building and dispute resolution, forming the backbone of the sector's long-term development under Vision 2030.

Key Institutions Supporting Saudi Arabia's Real Estate Sector

Institution	Core Role
National Housing Company (NHC)	The primary execution arm; delivers master-planned communities with integrated infrastructure to ensure delivery scale and quality.
Real Estate General Authority (REGA)	The sector's regulator; drives transparency through mandatory Ejar digital contracts and standardized valuations, reducing investor risk.
Saudi Real Estate Institute (SREI)	Serves as the academic and professional development arm of REGA. Provides training, certification, and skill development aligned with global best practices to enhance workforce quality and sector professionalism.
Saudi Real Estate Arbitration Center	Offers specialized dispute resolution mechanisms for real estate-related conflicts, improving contract enforceability, reducing legal bottlenecks and supporting transaction confidence across the sector.
Public Investment Fund (PIF)	Supports large-scale urban and real estate development through institutional capital deployment and national development platforms, enabling long-term market depth and formalization of the real estate sector.
Saudi Real Estate Refinance Company (SRC)	Enhance long-term housing finance liquidity through mortgage refinancing and securitization mechanisms.

	Supports interest rate stability, deepens the mortgage market and reduces refinancing risk across credit cycles.
Damanat	A credit enhancer providing mortgage guarantees; de-risks financing for lenders and supports homeownership for semi-bankable segments ⁶⁹ .
Real Estate Balance Platform (Tawazoun)	A supply-side stabilizer managed by RCRC; releases price-capped land in Riyadh to curb speculation and ensure orderly price discovery ⁷⁰ .
Jood Eskan	Functions as a national charitable housing platform that mobilizes community and third-sector contributions to support homeownership and housing stability for financially vulnerable households. Complement government housing programs by providing developmental housing solutions, supporting rental and mortgage defaulters and strengthening the social housing pillar of Vision 2030 through a transparent, digitally enabled funding framework ⁷¹ .

This institutional framework effectively addresses historical execution risks and regulatory fragmentation. By separating policy, regulation, execution and liquidity, the government has created a predictable environment that supports long-term valuation stability and institutional investment.

Digital Enablement and Demand Facilitation – Sakani Platform

Saudi Arabia's housing transformation is materially supported by digital demand facilitation, with the Sakani platform serving as a central execution layer under the Ministry of Municipalities and Housing, in partnership with the Real Estate Development Fund (REDF) and financial institutions. Sakani functions as an integrated digital ecosystem that connects citizens, developers, lenders and



advisory services, structurally improving demand conversion, affordability and market transparency.

Key Features and Impact of the Sakani Platform

Dimension	Role & Impact
Platform Function	Integrated digital platform streamlining the end-to-end homeownership journey by aggregating housing supply, financing options, advisory services and developer access within a single interface.
Demand Enablement	Facilitates access to ready-built units, under-construction properties and self-construction options, improving choice availability, reducing search and execution friction for buyers.
Affordability Support	Provides non-refundable financial assistance of SR 100,000–150,000 for eligible first-time homebuyers, strengthening purchase capability and lowering upfront cost barriers ⁷² .
Financing Facilitation	In partnership with REDF and banks, enables interest rate subsidies covering up to 100% of interest costs (subject to income eligibility), supporting affordability despite interest rate cycles ⁷³ .
Leverage & Down Payment Support	Supports high loan-to-value ratios of up to 90%, including down payments as low as 5% for eligible properties, materially expanding addressable buyer demand ⁷³ .
Transaction Cost Reduction	Offers Real Estate Transaction Tax (RETT) exemptions, saving 5% of property value for homes priced up to SR 1 million, reducing effective acquisition cost ⁷³ .
Digital Scale & Adoption	In 2024, recorded ~625 million platform visits, facilitated ~1.1 million services, and surpassed 1.2 million app downloads, indicating strong user engagement and institutional trust ⁷⁴ .

Sakani structurally improves demand-side resilience by lowering affordability thresholds, compressing transaction timelines and insulating buyer activity from interest rate volatility. As a result, it enhances sales velocity, inventory absorption and funding visibility for developers, while reinforcing financial system stability and long-term homeownership expansion.

Platforms and Institutional Programs

To complement institutional reforms, Saudi Arabia has deployed a comprehensive framework of digital platforms and institutional programs to enhance regulatory discipline, execution efficiency and market accessibility across the real estate value chain. These mechanisms formalize transactions, reduce execution friction, safeguard stakeholder interests and reinforce long-term sector sustainability.

Key Digital Platforms and Institutional Programs in Saudi Real Estate

Platform / Program	Core Role & Market Impact
Ejar Platform	Formalizes the rental market through standardized, legally enforceable digital contracts integrated with national systems. Enhances transparency, protects landlords and tenants, improves broker professionalism and strengthens investment confidence in rental assets.
Etmam Platform	Serves as a unified digital gateway for development approvals and licensing. Streamlines coordination across authorities, reduces permitting timelines, improves execution discipline and supports timely project delivery.
Mulak Program	Strengthens post-handover governance by enabling professionally managed homeowner associations. Improves asset maintenance, enhances building quality, supports long-term livability and community cohesion.

Developmental Housing Program	Expands housing access for socially vulnerable families through structured coordination with charitable organizations and multiple delivery channels. Reinforces social inclusion, housing stability and equitable access to housing.
Mostadam (Sustainable Building Platform)	Enhances construction quality and sustainability through certified inspections, readiness assessments, sustainability ratings and contractor compliance verification. Supports environmental stewardship, asset durability and long-term value preservation.
Shrakat Housing Program	Strengthens public-private collaboration through structured PPP frameworks, risk-sharing mechanisms and standardized agreements. Enables scalable private sector participation and efficient delivery of quality housing.

Collectively, these mechanisms have moved the Saudi real estate market from a fragmented landscape toward a data-driven and transparent ecosystem. By reducing approval bottlenecks and addressing governance gaps, these platforms have significantly enhanced the "Investability" of the sector, providing the legal and operational certainty required for long-term capital deployment.

Regulatory Reform, Urban Development and Commercial Real Estate Enablement

Saudi Arabia has implemented multi-dimensional reforms spanning regulatory modernization, urban infrastructure development and commercial real estate enablement. Collectively, these measures improve transparency, asset utilization, execution discipline and investment depth across residential and commercial real estate markets.

Saudi Real Estate - Policy Reforms and Market Impact

Policy Area	Key Initiatives	Market Impact
Regulatory Modernization & Governance Strengthening	Unified land and property documentation programs in Makkah and Madinah; establishment of a Municipal Real Estate Investment System to professionalize management and monetization of municipal assets; rental market regulation through Ejara with standardized, enforceable contracts.	Enhances transparency, improves land record reliability, reduces transaction risk, strengthens market discipline, increases investor confidence across ownership and rental markets.
Land Market Reform & Supply Activation	White Land Tax targeting over 411+ million sqm across major cities, with expansion to additional cities underway to incentivize development of idle urban land and expand planned supply.	Improves land utilization efficiency, expands urban housing and commercial supply, supports affordability and reduces speculative land hoarding.
Urban Development & Smart City Infrastructure	Smart ecosystem deployment across Makkah and pilgrimage cities, including integrated urban management platforms, environmental monitoring, population density management, transport upgrades and municipal facility enhancement.	Strengthens urban resilience, improves service delivery, enhances livability, supports long-term city scalability and sustainability.
Tourism & Pilgrimage City Development	Development of historical and religious heritage areas, commercial centers, pedestrian networks, and visual landscape upgrades.	Stimulates commercial real estate demand across hospitality, retail, mixed-use, logistics and offices, particularly in tourism-driven regions.

Taken together, Saudi Arabia's policy reforms, institutional execution, digital enablement and urban development initiatives have structurally strengthened the real estate ecosystem across residential and commercial segments. Positioning the sector for sustained growth, deeper institutional participation, enhanced long-term credit and investment stability under Vision 2030.

Regulatory, Legal Framework Key Developments and Implications

1. White Land Tax (WLT): Impact of the New 2025-Tiered Structure^{75, 76}

Regulatory Background and Policy Objective

In 2025, Saudi Arabia enhanced the White Land Tax (WLT) framework through the introduction of the White Land and Vacant Properties Tax, as part of broader housing and urban development reforms. The objective is to discourage land hoarding, unlock undeveloped land in key cities and support housing supply by increasing the cost of holding idle and development-ready land, particularly in high-demand urban areas. The revised regime replaces the earlier flat 2.5% levy with a tiered tax structure reaching up to 10% of the assessed land value.

Implications

- **Pressure on Non-Operating Landowners:** The 10% tax rate significantly reduces the profitability of holding land for speculation. This creates liquidity challenges for owners with high leverage and no development plans, forcing them to either liquidate assets or accelerate construction to avoid heavy annual costs.
- **Competitive Advantage for Operational Developers:** The policy favors institutional-grade developers with ready funding and execution pipelines.

These entities can absorb land more efficiently, while speculative holders are forced out of the market.

- **Enhanced Market Supply and Price Stability:** By making it expensive to keep plots idle, the law increases the volume of land available for sale. This shift helps moderate price inflation caused by artificial scarcity and allows the market to value land based on its immediate productive use.
- **Acceleration of Cash Flow Generation:** The tax forces the transition of land from a non-productive asset into an active development project. For creditors, this shifts the risk profile from stagnant land-banking loans toward project-finance loans with defined construction timelines and clear repayment milestones.
- **Reduction in Collateral Volatility:** By penalizing speculation, the tax helps prevent the formation of asset bubbles. This ensures that the land values used to secure bank loans are more stable and less prone to sharp corrections, protecting the recovery position of the lender.

2. Rent Stabilization: Assessment of the 5-Year Rent Freeze in Riyadh and its Impact⁷⁷

Regulatory Background and Policy Objective

In September 2025, Saudi Arabia introduced a 5-year freeze on rental price increases in Riyadh through a royal decree aimed at stabilizing rents amid rapid price growth. The regulation prohibits increases in the total rental value of existing leases and newly established contracts within Riyadh's urban boundaries for a period of five years.

Regulatory Framework and Key Provisions

- **Scope:** Applies to both residential and commercial leases within the defined urban area of Riyadh.
- **Key Provisions:**
 - Existing leases are locked at current rents for the freeze period.
 - Previously leased but vacant units must be rented at the last registered contract value.
 - First-time leases are set by agreement and then frozen for five years.

Implications

- **Tenant Stability and Demand Support:** The freeze directly improves housing affordability, which supports high tenant demand. By removing the risk of annual rent hikes, the policy encourages longer lease terms and higher occupancy stability across the residential and commercial sectors.
- **Yield Compression and Supply Constraints:** Capped rents limit the income growth potential for landlords, which reduces immediate investment returns. This may result in a slower pace of new rental supply and private investment as developers recalibrate their financial models to account for fixed revenue streams.
- **Mitigation of Speculative Risk:** By capping rent increases, the law prevents the formation of localized price bubbles. For lenders, this ensures that the property valuations used as collateral are grounded in stable contractual income rather than volatile, short-term market spikes.

- **Bifurcation of Asset Performance:** Market prices for rented properties are expected to remain stable, but the gap between high-quality and low-quality assets will widen. Well-located, high-specification properties will maintain their value through superior occupancy and lower maintenance costs, whereas weaker assets may face valuation pressure as they cannot adjust pricing to offset inflation.

3. Foreign Ownership Laws: The 2026 Non-Saudi Ownership Law⁷⁸

Regulatory Background and Policy Objective

The 2026 Non-Saudi Real Estate Ownership Law replaces the 2000 framework and introduces a rules-based regime for foreign participation in Saudi Arabia's real estate market, supporting foreign investment inflows and non-oil economic diversification while preserving regulatory oversight.

Key Features of the 2026 Ownership Framework

Under the updated law, non-Saudi individuals, companies and investment vehicles are permitted to own real estate or acquire other interim rights, subject to defined regulatory and geographic controls.

- Foreign ownership is permitted within designated geographic zones approved by the authorities, rather than on a blanket nationwide basis.
- Ownership is allowed in select areas of major cities, including Riyadh and Jeddah, while Makkah and Madinah remain subject to religious and regulatory restrictions.

- The framework replaces discretionary approvals with a rules-based, registration-driven system, reflecting controlled liberalization and alignment with urban and policy objectives.

Industry and Market Implications

- **Demand-Led Pricing Pressure:** The law expands the eligible buyer base, particularly for completed, income-generating assets. Because the supply of developable land in these approved zones is finite, the near-term impact is expected to be demand-driven, leading to localized price appreciation.
- **Secondary Market Depth:** By allowing a broader range of participants, the law enhances the liquidity and depth of the secondary market. For creditors, this is a significant positive as it improves the marketability of assets and provides a clearer exit path for investors.
- **Lagged Supply Response:** While demand increases immediately, the supply of new projects in approved zones will take time to materialize. This mismatch reinforces a zone-specific uplift in property values rather than a broad, market-wide increase.
- **Institutionalization of the Asset Class:** The move toward a rules-based system makes Saudi real estate more attractive to global institutional vehicles and REITs. From a credit perspective, this diversification of funding structure reduces the market's reliance on domestic retail demand and strengthens overall sector stability.

4. Wafi: Transition to the New Off-Plan Law (2024 to 2025 Enforcement)

Regulatory Background and Policy Objective

While off-plan sales have been regulated since 2016, the 2024 to 2025 period marks a watershed moment with the full implementation of the new Off-Plan Sale and Lease of Real Estate Projects Law. This updated framework moves beyond basic consumer protection to establish a comprehensive market governance system.

Key Rules and Requirements

The recent transition of the Wafi framework under the full oversight of the Real Estate General Authority (REGA) represents a critical institutionalization of Saudi Arabia's off-plan sector. By replacing discretionary administrative processes with a unified digital regulatory path, the new framework ensures transparency from project inception to final unit handover. Central to this de-risking effort is the implementation of a more rigorous barrier to entry, including a minimum capability score of 35/100, which effectively filters out undercapitalized developers in favor of those with proven financial and technical capacity. Furthermore, the introduction of mandatory financial compensation and termination rights for project delays has significantly bolstered buyer confidence, while the requirement for distinct marketing and infrastructure licenses prevents premature capital collection. Collectively, these governance enhancements ensure that developers only access funds following technical and financial feasibility clearance, reinforcing the long-term credit stability of the off-plan development market.

Key Quantitative Requirements under Wafi Regulations

- **Developer Eligibility**

Developers must meet REGA's minimum capability score of $\geq 35/100$ for companies and $\geq 35/55$ for individuals to qualify for off-plan sales.

- **Minimum Experience Thresholds**

Qualifying projects must meet minimum size requirements: 10 residential units or $2,000\text{m}^2$ (non-residential) or $50,000\text{m}^2$ (infrastructure).

- **Marketing Controls**

REGA decides on marketing license applications within 10 working days. Licenses are valid for 180 days and renewable. This allows for market testing without permitting the premature collection of sales capital.

- **Buyer Protection**

Reservation fees are capped at 5% of unit value and must be deposited into escrow accounts.

- **Limits on Individual Developers**

Natural persons are capped at $5,000\text{m}^2$ per project, three-year completion, and three projects per year.

- **Enhanced Oversight of Large Projects**

Projects exceeding $5,000\text{m}^2$ or 30 units require monthly progress reporting to REGA.

Market and Industry Implications

- **Institutionalization of the Developer Base:** The mandatory capability score serves as a filtering mechanism that removes undercapitalized and inexperienced entities from the market. This shift favors institutional-grade

developers with established execution records, leading to a more professionalized and consolidated industry.

- **Reduction in Sectoral Credit Risk:** Wafi-compliant projects offer higher bankability for lenders. By ring-fencing buyer payments in project-specific escrow accounts and linking fund releases to certified construction milestones, the regulation minimizes the risk of fund misappropriation and project abandonment.
- **Enhanced Buyer and Investor Confidence:** Mandatory compensation for delays and the right to terminate contracts shift performance risk from the buyer to the developer. This legal framework, paired with the 5% reservation fee cap, supports higher absorption rates by providing a secure regulatory buffer for purchaser capital.
- **Operational Discipline and Capital Momentum:** While the framework increases upfront compliance costs and extends pre-launch timelines, it ensures that developers possess the technical and financial momentum required for completion. This reduces the likelihood of mid-cycle project failures.
- **Stabilization of Secondary Market Values:** Adherence to unified technical standards ensures the long-term quality of the housing stock. This supports future resale values, protecting homeowner wealth and maintaining the quality of collateral for mortgage lenders.

Competitive Landscape

The Saudi real estate development market is fragmented⁷⁹, with a large portion of activity carried out by small, often family-owned developers operating at a project-by-project level. Historically limited access to bank funding, driven by regulatory and policy constraints, has meant that many developers rely predominantly on internal equity and shareholder or related-party funding to acquire land, finance construction and execute sales. This funding structure has constrained the emergence of large, balance-sheet-driven developers while sustaining a long tail of small-scale participants who develop, sell and fund successive projects using internally generated capital. As a result, the market remains dispersed across numerous independent developers, with development decisions shaped more by land ownership and internal capital availability than by institutional credit cycles.

Alongside this fragmented base, the sector also includes a distinct tier of large-scale developers with differentiated mandates. State-backed entities such as ROSHN, NEOM Company, Red Sea Global, and Qiddiya Investment Company operate as long-horizon master developers, focusing on integrated cities, destination assets, and lifestyle ecosystems aligned with Vision 2030, rather than conventional plot-level development. In parallel, listed and established private developers such as Emaar, The Economic City and SEDCO Development operate more structured development models, with Emaar, The Economic City acting as the master developer of King Abdullah Economic City, and others such as Abdul Latif Jameel Real Estate, Al-Saedan Real Estate, Rafal, Ewaan, Jenan and Al-Firah United concentrating on residential, mixed-use, and community-led projects within specific geographies and demand segments.

The Saudi real estate development industry is layered, with many small, equity-funded local developers and a smaller group of well-capitalized, strategically focused players driving large urban projects. Competition is shaped less by direct rivalry and more by differences in size, access to funding, land ownership and development goals. This mix of local and state or institution-led development supports sector resilience and allows steady growth across housing, mixed-use and destination-focused real estate over the medium to long term.

Real Estate Developers Performance in Saudi Arabia

Cost Inflation: Impact of Raw Materials and Labor Pressures on Project Margins

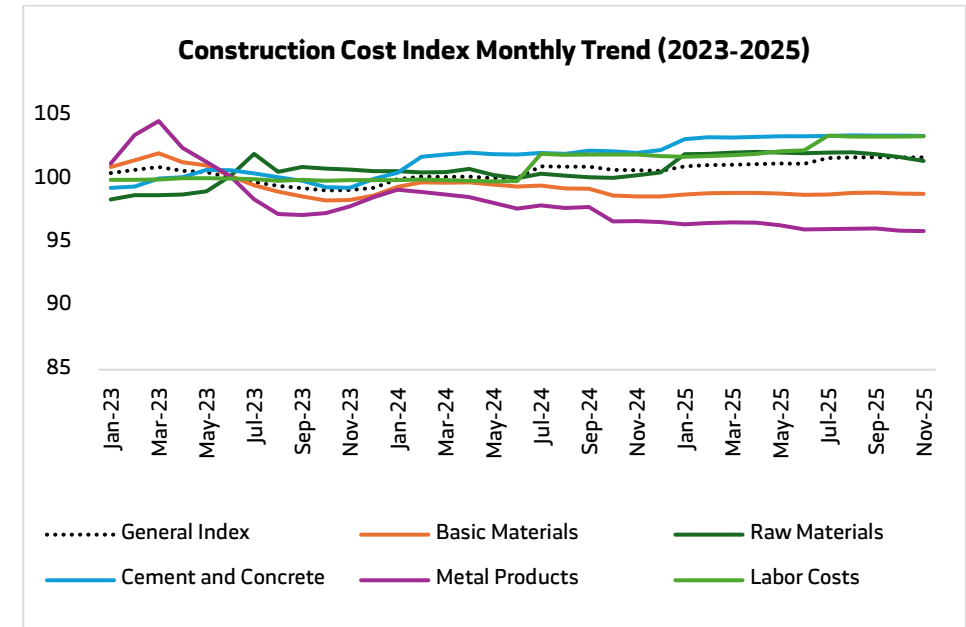
Construction cost trends in Saudi Arabia indicate a moderately inflationary but structurally elevated cost environment rather than a sharp price shock. The general construction cost index in 2025 remains around 101 to 102 (2023:100), suggesting overall stability in headline construction costs. However, the composition of inflation is uneven, with pressures concentrated in key cost drivers directly affecting residential and mixed-use developments. Cement and concrete costs remain persistently higher, averaging about 103 to 103.5 through 2025 versus around 102 in 2024 and close to base-year levels in 2023. This reflects sustained construction activity linked to national housing programs and large-scale development projects, creating persistent structural inflation in core building materials.

Labor costs present a more notable upward trajectory, rising from broadly flat levels in 2023 to about 101 to 102 through 2024 and accelerating to roughly 103.4 by mid-2025. This trend indicates tightening labor market conditions, higher wage costs



and increased subcontractor pricing, which could translate into higher execution costs and reduced operating flexibility for developers and contractors. In contrast, metal product costs are deflationary, declining from 101 to 104 levels in 2023 to about 96 in 2024 to 2025, reflecting year-on-year softening in global steel prices amid persistent oversupply and normalization from the 2021 to 2022 peak, despite absolute price levels remaining elevated versus pre-pandemic benchmarks. Basic and raw material indices remain broadly stable, suggesting that cost pressures are specific rather than systemic across all construction inputs⁸⁰.

From a credit perspective, this environment implies persistent, project-specific margin pressure rather than widespread sector distress. For developers undertaking WAFI (off-plan) projects sold prior to completion cost escalation risk is more pronounced, particularly in concrete-intensive developments, where rising material and labor costs can compress margins. For projects sold after construction, margin pressure is primarily influenced by market demand, supply conditions at the time of sale and execution risk rather than contractual clauses. Rising labor costs increase execution risk and could pressure liquidity where working capital buffers are limited. However, the absence of broad-based inflation and easing steel-linked costs help mitigate systemic risk.



Source: CCI Index⁸¹

(All Construction Cost Index figures referenced are indexed to 2023 = 100)

Industry Financial Performance Listed Companies

Note: The LTM 2025 (Last Twelve Months) performance metrics have been derived by aggregating financial data for the twelve-month period ending June 30, 2025 (H1 2025)

Operating Performance and Revenue Dynamics

Revenue performance across the listed players remains strong but uneven, reflecting the inherently project-driven nature of real estate development. Median revenue nearly doubled from SR 352.9 million during 2022 to SR 670.8 million during LTM2025, indicating a clear expansion in development activity and sales execution. This growth aligns with increased residential supply targets under Vision 2030, stronger off-plan sales activity, and improved access to bank and capital market funding that has enabled real estate developers to undertake larger projects.

Profitability Trends and Earnings Quality

Industry profitability remains robust yet volatile, characterized by a normalization of returns rather than a structural shift. While bottom-line performance reflects high earnings quality—with median Profit After Tax rising to SR 103.7 million from SR 66.6 million in 2022—median net margins experienced a minor contraction, settling at 21.5% compared to 21.7% during 2022. This compression is primarily attributed to heightened finance costs and rising overheads within a tighter monetary environment. Additionally, the sector's margin profile is increasingly influenced by non-core revenue drivers; specifically, the inclusion of recurring rental income and one-off gains from land divestments provides a significant margin uplift for certain players, often independent of traditional development revenue. Conversely, significant outliers with negative returns underscore persistent execution and project risks. Ultimately, the maintenance of strong double-digit net margins

confirms that industry growth remains firmly anchored in the Kingdom's resilient residential and commercial demand.

From a credit perspective, the close alignment between EBITDA and net margins serves as a strong endorsement of earnings quality, as profitability flows largely from operating performance. However, this also implies that developers remain directly exposed to construction cost inflation, execution delays and pricing pressure, with limited insulation from non-core income streams. In case of a downcycle, margin compression would therefore translate directly into weaker cash generation and credit metrics.

Leverage and Capital Structure

The capital structure of the listed players in real estate development is undergoing a structural transition, reflecting the intensive investment requirements of the current expansionary cycle. Median total debt increased significantly from SR 189.2 million at end 2022 to SR 722.8 million at end HY2025, signaling a shift from equity-heavy funding models toward more diversified, debt-leveraged frameworks. Since majority of debt is project related, this rise in leverage is primarily attributed to accelerated land acquisition, substantial infrastructure outlays and the mobilization of large-scale residential and mixed-use projects aligned with Vision 2030 objectives.

The expansion of corporate balance sheets is well-supported by a favorable credit environment and renewed institutional engagement, despite a high-interest rate environment. Total corporate real estate loans in the Kingdom rose from SR 138.1 billion at end 2022 to SR 211.8 billion by end 3Q2025, illustrating broader credit

availability and a strategic pivot by commercial banks toward the sector. This influx of capital has allowed developers to scale operations and undertake more complex, multi-year developments that require sustained funding beyond internal shareholder equity.

Despite the increase in absolute debt levels, solvency metrics remain within manageable parameters relative to the sector's growth trajectory. The median debt-to-equity ratio rose from 0.4x at end 2022 to 0.8x at end HY2025, while total liabilities-to-equity reached 1.1x. While these figures indicate a more aggressive use of leverage, they are considered manageable. Given the robust demand outlook and the structured nature of off-plan inflows, the current capital structure is considered resilient, providing developers with the necessary leverage to maximize returns while maintaining a sufficient equity cushion to absorb potential market volatility.

Cash Flow Generation and Coverage

The financial profile of Saudi Arabia's listed real estate developers reflects a sector in a high-intensity growth phase, where strong operational earnings are being systematically reinvested into project pipelines. While Median EBITDA has demonstrated a clear upward trajectory—rising from SR 56.4 million during 2022 to SR 133.6 million in LTM2025—this accounting profitability has not fully translated into equivalent Cash Flow from Operations (CFO).

The divergence between EBITDA growth and CFO (which stood at SR 27.2 million in LTM2025) is primarily a function of the sector's current lifecycle. Listed developers are navigating a period of high working capital intensity, characterized by significant cash outflows for land bank replenishment and accelerated construction spending.

In this expansionary environment, cash is prioritized for reinvestment to meet delivery milestones, resulting in a Median Free Cash Flow (FCF) of SR 28.3 million.

Despite reinvestment, interest coverage remains a significant credit strength. The EBITDA/Interest Expense ratio, while softening from its 2022 peak, remains robust at 9.0x in LTM2025. This indicates a substantial operational cushion to service debt obligations, even within a higher interest rate environment. However, the FCF/Net Debt ratio has declined to 0.2x, underscoring that while developers are profitable, their capacity to deleverage through internally generated cash is currently limited by their aggressive growth mandates.

The Total Debt/EBITDA ratio has stabilized at 3.6x in LTM2025, up from 2.1x during 2022. While this reflects a more leveraged capital structure, the ratio is considered manageable given the underlying asset quality and the strong demand for residential and commercial inventory. The stabilization of this metric suggests that earnings growth is beginning to align with debt expansion, supporting a sustainable, albeit elevated, leverage profile for the sector.

Liquidity and Funding Profile

Liquidity coverage shows volatility and remains uneven among developers, highlighting continued reliance on external funding despite recent improvement. Median liquid assets to total liabilities declined from 14.1% at end 2022 to 4.6% at end 2023, before stabilizing at 5.5% by end 2024 and marginally improving to 5.6% at end HY2025, indicating modest balance-sheet liquidity coverage relative to obligations.

Indicator & Ratios of Listed Real Estate Developers (SR in mn unless stated otherwise)	Median				Averages			
	2022	2023	2024	LTM2025	2022	2023	2024	LTM2025
Revenues	352.9	541.4	430.3	670.8	469.1	653.4	764.6	883.5
Gross Profit	79.0	163.5	117.6	200.4	100.2	204.1	193.9	261.4
EBITDA	56.4	105.8	100.0	133.6	17.0	156.1	131.1	198.0
Profit after Tax	66.6	85.4	87.1	103.7	-38.2	74.9	14.3	123.1
Total Assets	2,338.1	2,546.4	2,856.4	2,971.9	3,162.8	3,464.2	3,784.5	4,094.4
Equity	602.9	663.6	738.7	830.8	1,658.9	1,730.0	1,687.7	1,718.0
Profitability (%)								
Gross Margin	27.2%	30.9%	28.5%	32.5%	34.8%	36.9%	34.7%	35.5%
EBITDA Margin	22.2%	20.9%	20.3%	23.3%	28.5%	32.6%	27.5%	27.6%
Net Margin	21.7%	18.4%	24.0%	21.5%	26.7%	28.3%	25.4%	24.6%
Debt Level								
Total Debt	189.2	340.7	732.1	722.8	956.7	1,117.9	1,451.3	1,557.6
Net Debt*	104.2	283.5	622.6	614.7	831.9	1,005.6	1,350.7	1,321.0
Cashflow								
Cash Flow from Operations	-19.8	55.0	23.0	27.2	-69.0	48.6	-14.9	39.9
Free Cash Flow	-31.1	54.3	7.1	28.3	-75.8	32.2	-50.8	23.9
Liquidity								
Liquid Assets (Cash + Marketable Securities)	68.2	51.4	84.4	107.5	124.7	112.3	100.6	236.6
Liquid Assets to Total Liabilities (%)	14.1%	4.6%	5.5%	5.6%	23.6%	16.3%	13.4%	10.7%
Leverage & Coverage Ratios								
EBITDA / Interest Expense (times)	12.4	8.1	11.2	9.0	56.2	54.2	43.1	40.0
FCF / Net Debt* (times)	NM	0.9	0.4	0.2	NM	2.8	1.2	0.3
Total Debt / EBITDA (times)	2.1	3.4	3.4	3.6	3.5	4.4	3.9	6.2
Total Debt to Equity (times)	0.4	0.3	0.7	0.8	0.6	0.7	0.9	0.9
Total Liabilities to Equity (times)	0.6	0.6	1.0	1.1	1.1	1.3	1.5	1.6

Source: Capital IQ

Note: Liquid assets are calculated as the sum of cash and marketable securities.

Note: Certain outliers were excluded from the median and average calculations to avoid distortion of the overall results.

*Net debt figures are calculated after deducting total liquid assets, including cash and marketable securities.

Industry Financial Performance Investment Grade Real Estate Developers in Tassnief's Rating Portfolio (IGRED)

Operating Performance and Revenue Dynamics

Revenue performance of Investment Grade Real Estate Developers in Tassnief's portfolio (IGRED) remains robust, though it was characterized by non-linear growth, typical of the real estate development industry. Median revenue increased from SR 653.2 million in 2022 to SR 892.9 million in 2024, representing a robust expansion of approximately 37% over the two-year period. This momentum indicates an accelerated pace of project execution and high absorption rates within the Kingdom's primary urban markets, as developers successfully transition large-scale backlogs into realized top-line growth. The sustained revenue increase further underscores the sector's ability to mobilize significant capital and maintain sales velocity despite a higher interest rate environment.

Profitability Trends and Earnings Quality

Median profitability of (IGRED) has increased reaching SR 104.9 million during 2024 compared to SR 85.8 million during 2022. Despite the increase in net profits, the underlying margin profile implies that the sector is transitioning away from the high-yield gains observed in previous cycles. Median gross profit margins moderated significantly from 23.7% during 2022 to 17.9% in 2024, while net profit margins followed a similar trajectory, declining from 18.1% to 13.6% over the same period.

The sector is currently undergoing a structural shift in its margin profile, transitioning from the high-yield returns of earlier cycles toward a more normalized profitability level. This compression is driven by the following key factors:

- **Structural Market Maturity:** As the real estate market matures, the industry is moving away from high-margin, quick-turnaround projects. The current landscape is characterized by larger, more complex developments that naturally carry more constrained margins compared to early-cycle opportunities.
- **Increased Land Acquisition Costs:** Significant appreciation in land prices across the Kingdom's primary urban markets has increased the cost basis for new developments, eroding profitability margins.
- **Evolution of Funding Structures:** A strategic shift toward diversified capital sourcing has introduced third-party equity partners into the fund structure. While this model facilitates greater project scale and risk-sharing, the subsequent sharing of returns results in lower net profit margins for the developers.
- **Elevated Financing Costs:** The high-interest-rate environment coupled with elevated borrowing remains a significant headwind. As developers manage increasingly capital-intensive portfolios, the rising cost of debt is significantly impacting bottom-line earnings and net profitability.

Leverage and Capital Structure

The capital structure of the IGRED is navigating a structural transition, reflecting the intensive capital requirements of the current expansionary cycle. Median total debt increased from SR 255.7 million in 2022 to SR 358.8 million at end 2024. Despite this rise in absolute borrowing, the sector maintains a conservative profile, with the total debt to adjusted equity ratio remaining stable at 0.5x, indicating that debt growth is being prudently balanced by a corresponding expansion in the equity base.



Median equity increased from SR 404.9 million at end 2022 to SR 609 million at end 2024, reflecting stable leverage ratios despite significant increases in absolute debt. This capitalization trend is primarily driven by the earnings retention, in some instances, strategic capital injections intended to support larger project mandates.

Cash Flow Generation and Coverages

Although the net profit has increased on a timeline basis, Funds From Operations (FFO) of IGRED followed a downward trajectory, declining from SR 116.9 million in 2022 to SR 98.8 million during 2024. This divergence is due to the exclusion of items such as realized and unrealized gains on investment properties in the FFO calculation.

Cash Flow from Operations (CFO) was pressured during 2022 to 2023 as significant cash flows were redeployed into real estate projects. This trend reflects the reinvestment typical of the Kingdom's current growth cycle. However, the transition to a positive median CFO of SR 13.9 million in 2024 signals an improved pace of collection and the successful achievement of project milestones. This limited ability of profitability conversion to actual cash flows is a major rating constraint.

Although the balance sheet remains structurally sound, income-based leverage metrics highlight a period of tightening financial flexibility. The total debt to FFO ratio weakened from 2.2x at end 2022 to 3.7x at end 2024, reflecting the lag between debt deployment and the realization of core operational cash flows during the construction phase. Furthermore, the interest coverage ratio has normalized significantly from a peak of 44.1x to 6.7x, a shift driven by the impact of higher debt levels, the rising interest rate environment and normalization of profit growth. From

a credit perspective, while coverage remains adequate for investment-grade status, the narrowing margin underscores an increased sensitivity to financing costs and a greater reliance on timely project execution to service debt.

Indicator & Ratios of Investment Grade Developers in Tassnief's Portfolio (SR in mn unless stated otherwise)	Median		
	31-Dec-22	31-Dec-23	31-Dec-24
Revenue	653.2	675.5	892.9
Gross Profit	154.3	139.3	156.8
Net Profit	85.8	118.0	104.9
Equity	404.9	514.9	609.0
Profitability (%)			
Gross Profit Margin	23.7%	22.4%	17.9%
Net Profit Margin	18.1%	15.9%	13.6%
Debt Level			
Total Debt	255.7	281.3	358.8
Cashflow			
FFO	116.9	110.3	98.8
CFO	-13.8	-5.9	13.9
Leverage & Coverage Ratios			
Interest Coverage (times)	44.1	7.3	6.7
Debt Service Coverage (times)	44.1	2.1	3.1
Total Debt/FFO (times)	2.2	2.6	3.7
Total Debt/Adj. Equity (times)	0.5	0.6	0.5
Total Liabilities to Equity (times)	1.7	1.6	1.8

Credit Implications

Saudi Arabia's real estate sector is supported by structural demand, policy-backed programs, improving financing, enhancing sales visibility and liquidity. These factors bolster cash flow predictability and financial resilience for well-capitalized developers; while rising leverage, execution complexity and policy dependence create differentiated credit risks across the sector.

Positive Credit Implications

1. Strong Policy Support Limits Downside Credit Risk

The Saudi real estate market is underpinned by an expansive framework of government-led initiatives, including the Real Estate Development Fund (REDF), Sakani and comprehensive mortgage interest subsidies. These programs function as demand stabilizers, effectively insulating the sector from the full impact of global monetary tightening and domestic liquidity fluctuations. Historically, during periods of macroeconomic stress (2015 to 2018 and 2024 to 2025), these interventions ensured that transaction volumes experienced an orderly moderation rather than a sudden decline. From a credit perspective, this policy floor significantly reduces downside risk for both developers and financial institutions by sustaining market absorption, protecting operational cash inflows and ensuring the continued bankability of end-user segments throughout the credit cycle.

2. Structurally Visible Demand Supports Sales Absorption and Cash Flow Predictability

Saudi Arabia's demographic profile, characterized by a significant youth population, the rapid acceleration of nuclear family formation and high urbanization rates,

creates a long-duration, organic demand base for residential real estate. Unlike speculative markets, this structurally anchored demand provides developers with enhanced sales visibility and allows for more disciplined project phasing. For credit participants, this environment translates into more predictable cash inflows and reduces inventory turnover risk. By shifting the market away from a reliance on speculative investors toward stable, end-user absorption, the sector gains a durable foundation that supports credit stability over the medium to long term.

3. Shift Toward Local Bank Financing and Innovative Funding Solutions

Historically, a limited domestic appetite for developer risk acted as a constraint on the growth of the real estate development sector. However, the Saudi banking sector has since undergone a structural recalibration, significantly expanding its aggregate exposure to the real estate industry. While corporate lending to developers has grown substantially in absolute terms, its relative weight within the broader real estate credit book has moderated, reflecting the rapid institutionalization and scale of the retail mortgage market. This evolution has enhanced funding accessibility and optimized pricing for institutional-grade developers. While the utilization of these third-party equity structures naturally results in margin sharing and a moderation of net profit percentages, it provides developers with the necessary leverage to significantly scale project delivery and absolute earnings. This diversification of the funding mix effectively mitigates refinancing risk and bolsters sectoral credit resilience.

4. Persistent Supply Gaps Support Pricing Power and Margin Protection

Market assessments indicate a significant cumulative housing deficit by 2030, with projected demand materially outpacing expected supply, particularly in the



affordable residential and Grade-A office segments. This structural imbalance provides a sustained "floor" for property valuations and rental rates across the Kingdom's primary urban hubs. From a credit perspective, this inherent scarcity mitigates the risk of asset devaluation and supports margin preservation for developers with established land banks and proven execution capabilities. Furthermore, the lack of inventory surplus enhances Loan-To-Value (LTV) stability, ensuring that the quality of real estate collateral remains robust and strengthens the overall credit profile of the sector.

5. Institutional Governance and Digital Maturity Mitigates Execution Risk

The sector's regulatory overhaul has turned a fragmented market into a formal, digitally led ecosystem. Platforms like Ejar (for rental governance) and Etmam (for development approvals) have reduced historical red tape and legal bottlenecks. Meanwhile, the Wafi Off-Plan Law has forced a new level of financial discipline; by locking project funds in escrow accounts and tying payouts to actual construction milestones, it ensures appropriate fund allocation. For creditors, it effectively sifts the market for institutional-grade developers with the necessary capital and experience, drastically reducing the project risk.

Negative Credit Implications

1. Heightened Sensitivity to Policy Cycles and Geopolitical Volatility

Despite the move toward market formalization, real estate demand remains significantly tied to government-led incentives. Mortgage subsidies, interest support and tax exemptions are critical drivers of transaction volumes, particularly within the mid-market residential segment. Any material recalibration or withdrawal of these measures, whether driven by fiscal adjustments or a shift in

government spending toward regional security and defense, could soften demand and slow sales momentum. Furthermore, geopolitical volatility in the region remains a latent risk that could impact investor sentiment or lead to a reprioritization of the national budget away from housing subsidies.

2. Riyadh Rent Freeze Constrains Yield Growth and Collateral Upside

The five-year rent freeze in Riyadh places a structural cap on rental income across residential and commercial assets, effectively halting organic yield expansion. For income-generating properties held as collateral, this suppresses valuation upside and creates heightened Loan-To-Value (LTV) sensitivity. For leveraged developers who underwrote projects based on projected rental spikes, capped income may lead to compressed Debt Service Coverage Ratios (DSCR) and weakened investment viability. This results in concentrated credit pressure for entities whose portfolios are heavily leveraged and weighted toward the capital's urban boundaries.

3. Execution and Timing Risk from Large-Scale Supply Pipelines

While the demand factor is robust, the simultaneous development of giga-projects and private-sector pipelines introduces significant execution and phasing risks. The massive scale of concurrent construction creates intense competition for specialized labor, raw materials and high-quality contractors. If delivery timelines cluster in specific sub-markets, it could lead to delays in project execution or cost overruns. For developers with concentrated exposure to capital-intensive projects, any delays or cost overruns could strain cash flow and increase upward pressure on leverage, especially where project financing is tied to strict completion milestones.



Mitigants: Developers with deep, long-term contractor partnerships and early-stage procurement strategies are better positioned to insulate themselves from these resource constraints. Furthermore, a phased approach to large-scale master plans allows for capital recycling and reduces the risk of simultaneous project failure.

4. Rising Banking Sector Exposure Heightens Systemic Credit Sensitivity

The deep interlinkage between the property sector and the banking system, where real estate now commands a significant portion of total credit, creates a heightened sensitivity to sectoral shifts. While this concentration provides massive liquidity during expansion, it also means that any broad market correction or change in banking regulations could lead to tighter underwriting standards. For developers, this systemic crowding may restrict funding availability or drive-up financing costs, especially for early-stage or non-core projects that lack institutional backing.

Mitigants: Conservative leverage and access to institutional financing channels such as SRC, PIF, or Damanat can mitigate reliance on traditional bank funding and preserve liquidity under tighter credit conditions.

5. Rising Construction Costs Elevate Execution and Margin Risk

Persistent increases in cement, concrete and labor costs, compounded by uneven inflation across the construction supply chain, create sustained pressure on project margins. For developers engaged in labor-heavy or capital-intensive projects, these rising costs can lead to significant margin compression and strained liquidity. From a credit perspective, this elevates vulnerability for highly leveraged entities or those with narrow working-capital buffers, as any budget overrun directly erodes the cash flow available for debt servicing.

Mitigants: Developers with robust balance sheets and disciplined procurement strategies—such as bulk-buying or early-stage contracting—are better positioned to absorb this volatility. Furthermore, a conservative approach to leverage and phased construction timelines provides a necessary “breathing room” to manage cash flow stress if execution delays occur.

6. Interest Rate Volatility and SAIBOR Sensitivity

The Saudi real estate sector remains highly sensitive to the prevailing interest rate environment, specifically the Saudi Interbank Offered Rate (SAIBOR). For developers, high benchmark rates directly inflate the cost of working capital and construction financing, which can erode the net profit margins of projects already in progress. Furthermore, elevated rates impact the end-user side of the credit cycle by increasing mortgage costs, which can dampen the affordability and demand for residential units. From a credit standpoint, this dual pressure—rising financing costs for the developer and reduced purchasing power for the buyer—can squeeze liquidity and impact the coverage ratios of more leveraged market participants.

Saudi Arabia’s real estate sector remains fundamentally resilient, supported by structural demand, policy backing and diversified financing. Large, well-capitalized developers benefit from scale and execution strength, while smaller or highly leveraged players face execution, refinancing and policy risks. Credit outcomes are determined by cash flow sustainability, prudent leverage and effective project delivery, with structural demand and regulatory oversight providing medium to long-term stability.

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